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■ CORPORATE BOARDS

Board of Directors ¹	Chairman	Marco Tronchetti Provera	
	Deputy Chairman	Gilberto Benetton	
	Managing Directors	Enrico Bondi Carlo Orazio Buora	
	Directors	Umberto Colombo * Francesco Denozza Luigi Fausti * Guido Ferrarini ** Paolo Maria Grandi Natalino Irti ** Gianni Mion Massimo Moratti Carlo Alessandro Puri Negri Pier Francesco Saviotti * Roberto Ulissi **	<p>◀ * Member of Directors' Remuneration Committee</p> <p>◀ ** Member of Internal Audit and Corporate Governance Committee</p>
	Secretary to the Board	Francesco Chiappetta	
Board of Statutory Auditors ²	Chairman	Paolo Germani	
	Acting auditors	Mario Boidi Paolo Golia Fabrizio Quarta Gianfranco Zanda	
	Alternate auditors	Enrico Bignami Leonida Liuni	
Common representative of the savings shareholders ³		Carlo Pasteris	
Independent auditors ⁴		Reconta Ernst & Young S.p.A.	

1 Appointed by the Shareholders' Meeting on November 7, 2001

2 Appointed by the Shareholders' Meeting on July 3, 2000

3 Appointed by the special Savings Shareholders' Meeting on October 31, 2001

4 Appointed by the Shareholders' Meeting on June 12, 2001

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■ LETTER FROM THE CHAIRMAN



Dear Shareholders,

One of the new management's first objectives at Telecom Italia, after its entry in the Group, was to take action on an industrial level to achieve a turnaround of this great Italian company.

The Telecom Italia Group occupies an extremely important place in Italy's industrial scenario, both because of the high level it has reached technologically and the impressive level of professional skills to which it has access. In fact, we saw that what was needed was a more solid, more efficient productive and financial structure, which would reinforce its capacity to play a role of primary importance in the key sector of Information and Communication Technology.

In order to achieve these objectives, in the first few months after we took over management of the Group, we carried out some important transformations. Firstly we completely reorganized the Group's staffing and business structures. We also implemented a series of measures to bring about a decisive improvement in its level of efficiency and profitability.

We adopted a strict policy to control costs and investments, continued with the policy of divesting non-core activities and started a gradual program to restructure and reduce debt. Furthermore, we adopted accounting criteria that are a better reflection of the market values of some assets, particularly in the case of the foreign operations of the Group.

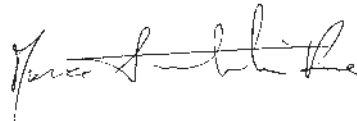
Now that the period of special measures has more or less come to an end, we can start anew with a cycle of operations which aims to consolidate our strategy of creating value.

In February of this year the new industrial plan for the Group was presented to the international financial community. It is based on strategies that will strengthen the leadership position of the companies of the Group on the domestic market, particularly the markets of wireline and mobile telephone services and Internet services, and energize its international presence, particularly the presence of TIM in Latin America, Turkey and Greece.

Several factors are fundamental to this development plan: strengthening the core business, the ability to offer ever higher quality and better services, which are truly the source of creating value, the reorganization of the foreign portfolio and technological innovation. And a factor of primary importance in the success of all of these is customer satisfaction.

I would like to conclude by saying that I am convinced that, by putting this solid basis to the best possible use, together with a newfound awareness of its role in the revitalization of Italy, the Telecom Italia Group can face the future with confidence, and guarantee its shareholders and all its stakeholders the best possible chances of success in the future.

Marco Tronchetti Provera



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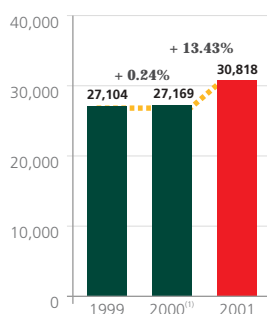
■ SELECTED ECONOMIC AND FINANCIAL DATA OF TELECOM ITALIA GROUP

In 2001, the investment in the Nortel Inversora group (Telecom Argentina) – which in 2000 had been consolidated using the proportional method – was accounted for using the equity method. For purposes of comparison, the financial statements for 2000 have been restated to give effect to the consolidation of the Nortel Inversora group using the equity method.

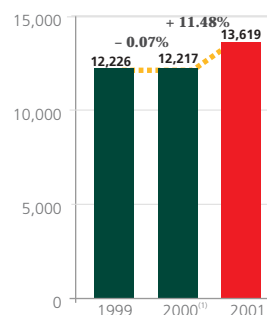
Moreover, the following changes in the scope of consolidation took place during the year:

- the groups Seat Pagine Gialle, Jet Multimedia, Magéos Explorer and Maxitel and the company Corporacion Digitel: only the balance sheets were consolidated in 2000 since they were acquired at the end of the year, whereas in 2001 they were consolidated line-by-line, including the statements of income
- the Entel Chile group and the companies TIM Celular Centro Sul, TIM Sao Paulo and TIM Rio Norte: included in the scope of consolidation beginning 2001
- the Sirti and Italtel groups: excluded from the scope of consolidation since they were sold during 2000, the year in which they were consolidated line-by-line for the first nine months

Revenues (euro/million)



Gross operating profit (euro/million)



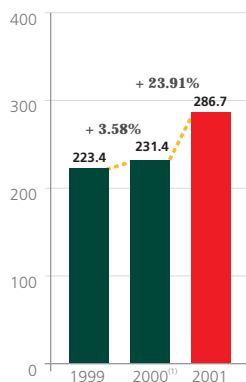
	2001	2000 ⁽¹⁾	2000	1999
Results of operations (in millions of euro)				
Sales and services revenues	30,818	27,169	28,911	27,104
Gross operating profit	13,619	12,217	13,118	12,226
Operating income pre-amortization of goodwill	7,696	6,608	6,985	6,535
Operating income	6,674	6,440	6,805	6,433
Income (loss) before income taxes	(733)	4,802	4,968	5,015
Income (loss) before minority interest	(1,658)	2,892	2,948	2,409
Net income (loss)	(2,068)	2,028	2,028	1,737
Cash Flow ⁽²⁾	5,990	4,453	4,763	8,443
Investments:	11,257	19,484	20,009	6,754
- Industrial	6,990	7,375	7,899	4,887
- Goodwill	1,174	9,109	9,109	567
- Financial	3,093	3,000	3,001	1,300
Financial condition (in millions of euro)				
Total assets	62,670	61,985	65,515	46,058
Net invested capital	41,250	41,923	44,556	27,924
Shareholders' equity	19,308	24,690	25,527	19,786
- Parent company interest	13,522	18,821	18,821	17,045
- Minority interest	5,786	5,869	6,706	2,741
Net debt	21,942	17,233	19,029	8,138

(1) Restated to give effect to the consolidation of the Nortel Inversora group (Telecom Argentina) using the equity method instead of the proportional method

(2) Calculated as follows: Operating income + Depreciation and amortization - Industrial investments + Change in operating working capital

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Revenues/Employees
(thousands of euro)



	2001	2000 ⁽¹⁾	2000	1999
Profit and financial indexes				
Gross operating profit/Revenues	44.2%	45.0%	45.4%	45.1%
Operating income/Revenues (ROS)	21.7%	23.7%	23.5%	23.7%
Return on equity (ROE)	n.s.	13.0%	13.0%	12.6%
Return on Investment (ROI)	16.0%	18.4%	18.8%	23.6%
Free Cash Flow/Revenues	19.4%	16.4%	16.5%	31.2%
Net debt/ Net invested capital (Debt ratio)	53.2%	41.1%	42.7%	29.1%
Employees				
Employees (No. in Group at year-end)	109,956	107,171	114,669	122,662
Employee (Average No. in Group)	107,491	117,424	124,696	121,327
Revenues/Employees (Group average - in thousands of euro)	286.7	231.4	231.9	223.4

(1) Restated to give effect to the consolidation of the Nortel Inversora group (Telecom Argentina) using the equity method instead of the proportional method

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■ KEY DATA OF THE BUSINESS UNITS OF TELECOM ITALIA GROUP

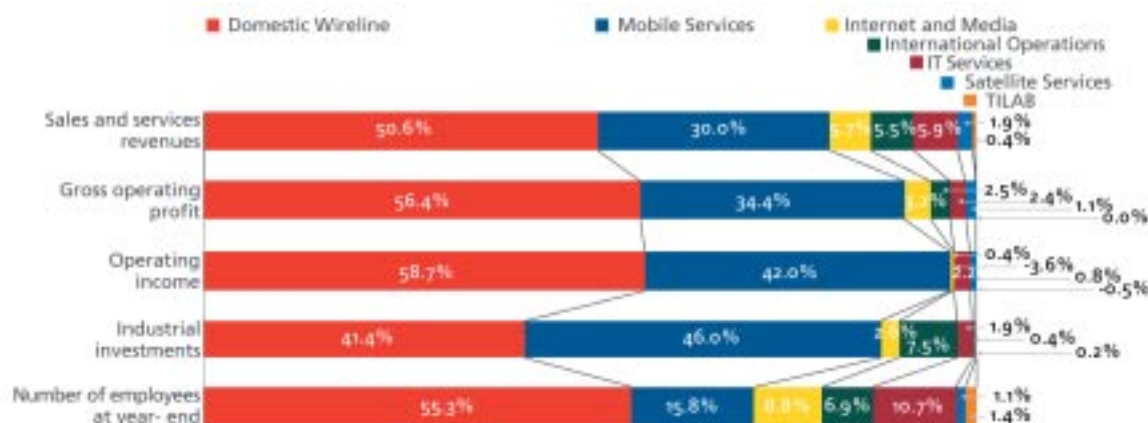
Telecom Italia Group operated with the following Business Unit structure:

(milioni di euro)		Domestic Wireline	Mobile Services	Internet and Media Operations	International Operations	IT Services ⁽²⁾	Satellite Services	TILAB	Sub-totale	Other operat. and eliminat.	Consolidated total
Sales and services revenues	2001	17,291	10,250	1,957	1,879	2,033	648	134	34,192	(3,374)	30,818
	2000 ⁽¹⁾	17,514	9,418	263	505	2,138	340	123	30,301	(3,132)	27,169
	2000				2,292				32,088	(3,177)	28,911
Gross operating profit	2001	7,788	4,760	444	347	332	159	(14)	13,816	(197)	13,619
	2000 ⁽¹⁾	7,421	4,447	(35)	(3)	329	50	(9)	12,200	17	12,217
	2000				898				13,101	17	13,118
Operating income	2001	4,379	3,136	31	(268)	162	60	(34)	7,466	(792)	6,674
	2000 ⁽¹⁾	3,915	2,988	(73)	(135)	134	(52)	(34)	6,743	(303)	6,440
	2000				230				7,108	(303)	6,805
Investments:											
- Industrial	2001	2,835	3,151	175	517	129	29	16	6,852	138	6,990
	2000 ⁽¹⁾	2,746	4,206	34	204	125	31	33	7,379	(4)	7,375
	2000				728				7,903	(4)	7,899
- Goodwill	2001	-	31	203	773	1	-	6	1,014	160	1,174
	2000 ⁽¹⁾	-	899	-	780	1	-	-	1,680	7,429	9,109
	2000				780				1,680	7,429	9,109
Number of employees at year-end	2001	58,406	16,721	9,264	7,307	11,288	1,196	1,422	105,604	4,352	109,956
	2000 ⁽¹⁾	62,782	15,257	7,515	2,572	12,005	1,206	1,287	102,624	4,547	107,171
	2000				10,070				110,122	4,547	114,669

(1) Restated by consolidating the Nortel Inversora group (Telecom Argentina) using the equity method instead of the proportional consolidation method

(2) In early 2001, the Information Technology Services Business Unit was split into two distinct units: IT Group, under the direction of A. Andreoni and IT Market, under the direction of G. Tronchetti Provera.

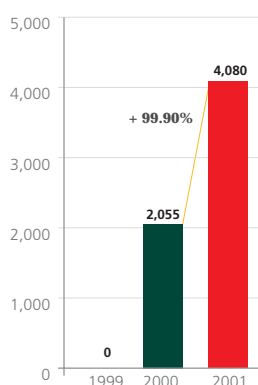
Major economic and operating indicators by Business Unit:



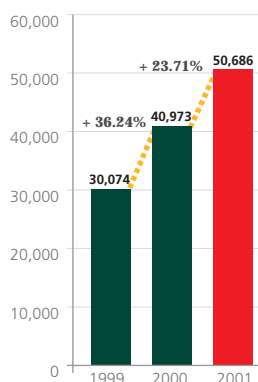
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■ OPERATING HIGHLIGHTS OF TELECOM ITALIA GROUP

Telecomomy



Total TIM lines



	2001	2000	1999
DOMESTIC WIRELINE			
Fixed network connections in Italy (thousands)	27,353	27,153	26,502
- of which digital (equivalent ISDN channels)	5,403	4,584	3,049
Telecomomy customers (excluding ADSL, in thousands)	4,080	2,055	-
Network infrastructure in Italy			
- access network in copper (millions of km - pair)	104.3	104.0	103.4
- access network and transport in fiber optics (millions km of fiber optics)	3.2	3.1	2.9
Network infrastructure abroad			
- European backbone (km of fiber optics)	36,600	36,600	-
MOBILE SERVICES			
TIM lines in Italy (thousands)	23,946	21,601	18,527
TIM group lines abroad (thousands)	26,740	19,372	11,547
TIM group lines total (Italy + abroad in thousands)	50,686	40,973	30,074
GSM coverage in Italy (% of population)	99.7	99.6	99.2
E-TACS coverage in Italy (% of population)	98.0	98.0	97.9
INTERNET AND MEDIA			
Directories customers (thousands)	759	736	714
- of which Seat Pagine Gialle	670	647	621
- of which Thomson (TDL Infomedia Ltd.)	89	89	93
Page Views Virgilio (millions)	3,945	2,218	505
- of which TIN portal	438	513	-
Active Users (at year-end, thousands)	1,804	1,656	1,104

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■ SHAREHOLDER INFORMATION

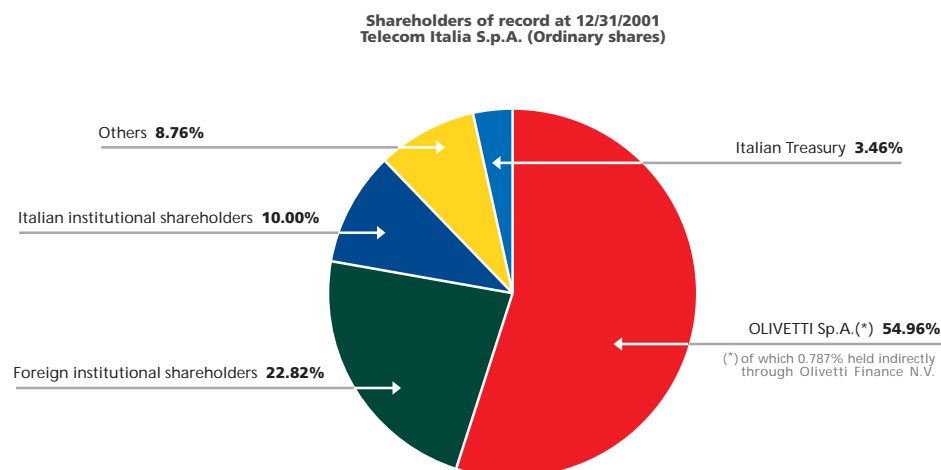
■ Shares

Share capital	euro 4,023,060,528.3
Ordinary share	n. 5,261,533,481 da 0.55 euro cadauna
Savings share	n. 2,053,122,025 da 0.55 euro cadauna
Market capitalization (on average prices of December 2001)	62,219 (euro/mln)
Percentage of Telecom Italia stock	
- on Mibtel Index (Telecom Italia - ordinary and savings)	10.2% (al 31/12/2001)
- on DJ Eurostoxx TLC ⁽¹⁾ Index (Telecom Italia - ordinary)	4.5% (al 31/12/2001)
Percentage of shares of the Telecom Italia Group	
- on Mibtel Index (Telecom Italia, TIM, Seat Pagine Gialle - ordinary and savings)	22.8% (al 31/12/2001)
- on DJ Eurostoxx TLC ⁽²⁾ Index (Telecom Italia, TIM - ordinary)	9.1% (al 31/12/2001)

◀ (1) The index is calculated on a geographical basis including all European nations

◀ (2) The index is calculated on a geographical basis including all European nations

■ Shareholders



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■ Translation of share capital into euro

Subsequent to the resolution passed by the extraordinary session of the Shareholders' Meeting on May 3, 2001, the share capital was translated into euro by the redenomination of the par value of the ordinary and savings shares and rounding up the par value from Lire 1,000 to euro 0.55 and the consequent bonus increase in share capital effected by:

- the cancellation of No. 112,998,070 savings shares of treasury stock of par value Lire 1,000 each held in portfolio and the allocation to share capital, for replenishment of the same, of an amount equal to the par value of the shares cancelled corresponding to the portion of the reserve for treasury stock in portfolio which became available after cancellation of the shares, with a consequent increase in the par value of the shares outstanding;
- the allocation to share capital of an amount of euro 187 million from the revaluation reserve No. 72, March 19, 1983, with the consequent increase in the par value of the shares outstanding.

■ Expiration date for the promotion of an offer for the voluntary conversion of savings shares into ordinary shares

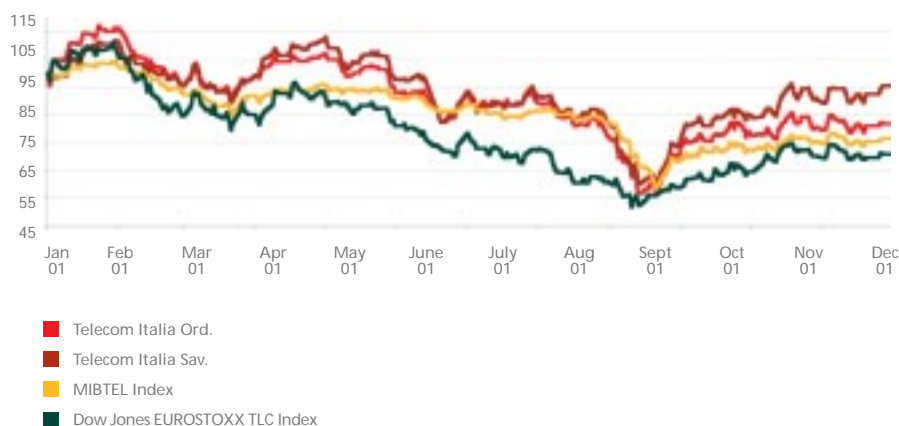
December 31, 2001 was the expiration date set by the extraordinary session of the Shareholders' Meeting on May 3, 2001 for promotion of the offer for the voluntary conversion of savings shares into ordinary shares. The conversion called for the payment of a price difference commensurate with the percentage (between 38% and 42%) of the arithmetic average of the official price of ordinary shares over a significant period of time, and, in any case, not less than euro 5.25 per share. In the absence of a conversion offer, the Company will not proceed with the plan to buy back ordinary shares through a vehicle company, to be effected - as voted by the Shareholders' Meeting of May 3, 2001 - with the proceeds from the conversion.

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■ PERFORMANCE OF THE MAIN STOCKS OF TELECOM ITALIA GROUP

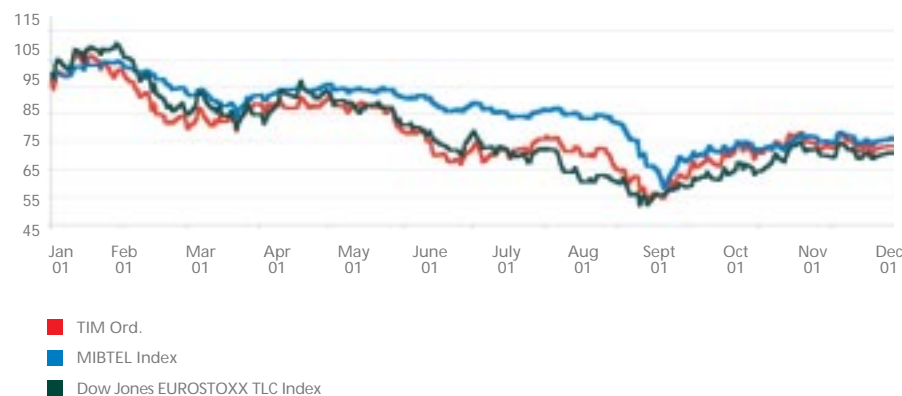
Relative performance Telecom Italia S.p.A. 2001 vs MIBTEL Index and DJ Eurostoxx TLC Index (ordinary and savings shares)

◀ (Source: Reuters)



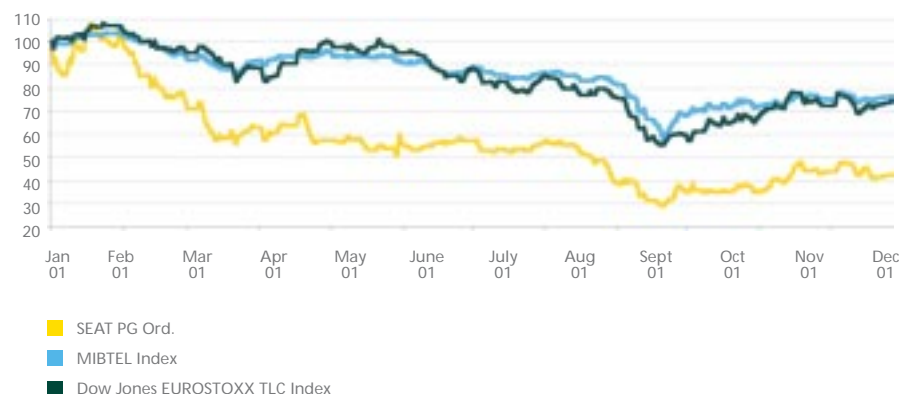
Relative performance TIM S.p.A. 2001 vs. MIBTEL Index and DJ Eurostoxx TLC Index (ordinary shares)

◀ (Source: Reuters)



Relative performance Seat Pagine Gialle S.p.A. 2001 vs. MIBTEL Index and DJ Eurostoxx Media Index (ordinary shares)

◀ (Source: Reuters)



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■ FINANCIAL INDICATORS

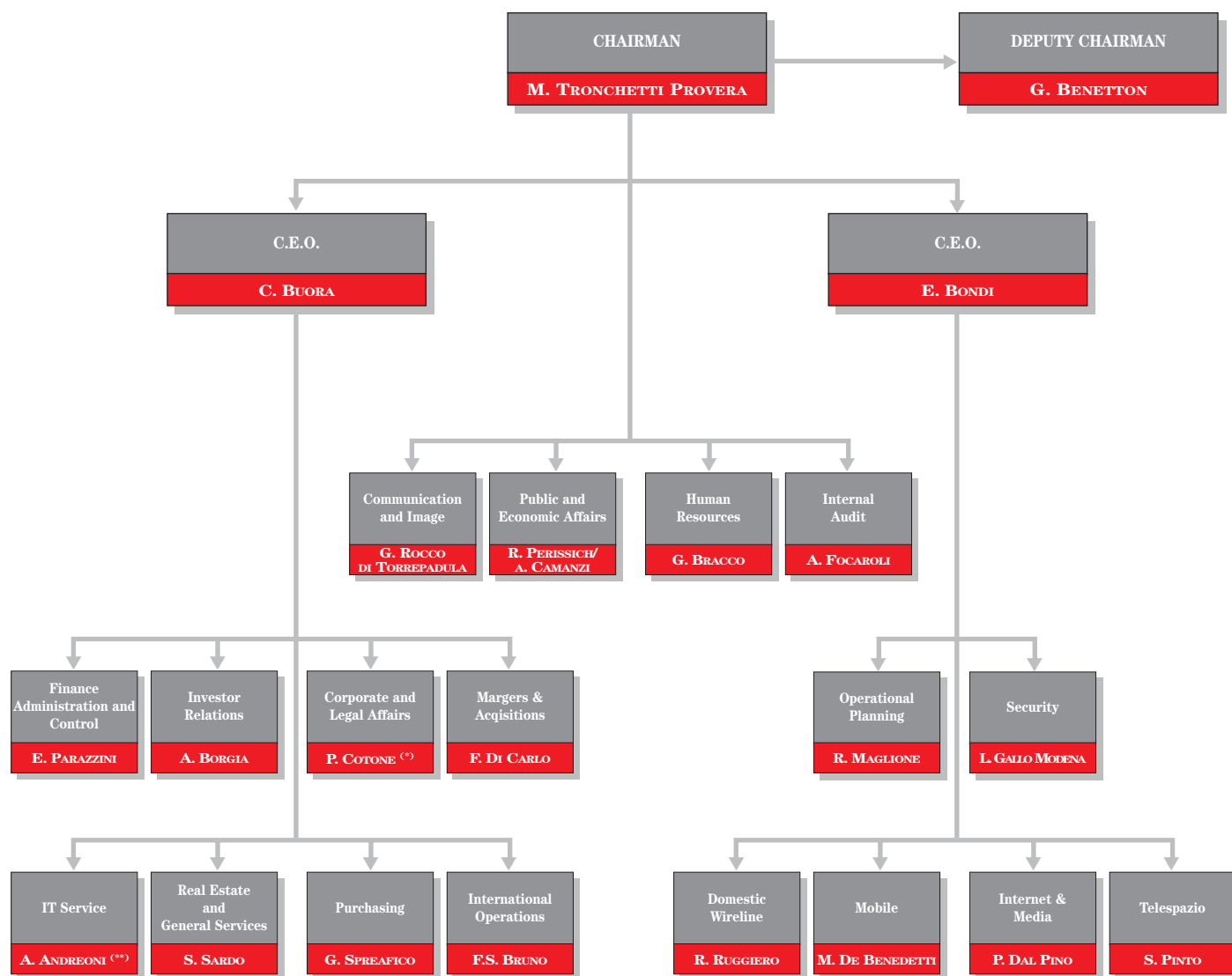
(euro)	2001	2000	1999
Telecom Italia S.p.A.			
Market price (December average) ^(*)			
- Ordinary share	9.56	12.75	12.51
- Savings share	5.80	6.33	5.50
Dividends			
- Ordinary share	0.3125	0.3125	0.3114
- Savings share	0.3237	0.3238	0.3218
Pay-out Ratio	95%	90%	89%
Market to Book Value	3.9	4.3	4.2
Dividend Yield (on December average market prices) ^(*)			
- Ordinary share	3.27%	2.45%	2.49%
- Savings share	5.58%	5.11%	5.85%
Telecom Italia Group			
Earnings/(Loss) per share	(0.2827)	0.2770	0.2339
Consolidated cash flow per share	0.8189	0.6082	1.1369
Consolidated equity per share	1.8486	2.5708	2.2953
Ratings at 12/31/2001		Outlook	
STANDARD&POOR'S	BBB+	Stable	
MOODY'S	Baa1	Positive	
FITCH IBCA	A-	Stable ⁽¹⁾	

◀ (*) Source Reuters. Reference prices, 1999 adjusted for Seat Pagine Gialle spin-off.

◀ (1) Updated to March 22, 2002

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■ ORGANIZATIONAL STRUCTURE OF TELECOM ITALIA GROUP AT 12/31/2001



(*) In March 2002, P. Cotone left the Telecom Italia Group and was replaced by A. Cappuccio.

(**) In early 2002, the Information Technology Services Business Unit was split into two distinct units: ITS Group, under the direction of A. Andreoni and ITS Market, under the direction of G. Tronchetti Provera.

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■ GLOBAL OPERATIONS OF TELECOM ITALIA GROUP AT 12/31/2001

EUROPE

Major subsidiaries

DOMESTIC WIRELINE

- Pan European Backbone (Europe)

INTERNATIONAL OPERATIONS

- 9Telecom Reseau Group (France)
- BBNet (Holland)
- Intelcom San Marino S.p.A.

INTERNET AND MEDIA

- TDL Infomedia Group (Great Britain)
- Telegate Group (Germany)
- Consodata Group (France)

OTHER OPERATIONS

- Softe S.A. (Luxembourg)
- Sogerim S.A. (Luxembourg)

Major affiliates

MOBILE SERVICES

- Bouygues Telecom S.A. (France)
- Mobilkom Austria Group (Austria)

INTERNATIONAL OPERATIONS

- Auna Group (Spain)
- Telekom Austria Group (Austria)
- Telekom Srbija a.d. (Serbia)



MEDITERRANEAN BASIN

Major subsidiaries

DOMESTIC WIRELINE

- Mediterranean Nautilus Group (Mediterranean Basin)
- Med-1 Group (Mediterranean Basin)

MOBILE SERVICES

- Stet Hellas Group (Greece)

Major affiliates

MOBILE SERVICES

- Is Tim T.H.A.S (Turkey)

ITALY

Major subsidiaries

DOMESTIC WIRELINE

- Saritel S.p.A.
- Atesia S.p.A.
- Path.net S.p.A.
- TMI Group – Telemedia International Italia

MOBILE SERVICES

- TIM S.p.A.

INTERNET AND MEDIA

- Seat Pagine Gialle S.p.A.
- Matrix Group
- Buffetti S.p.A. Group
- Holding Media e Comunicazione Group

IT SERVICES

- Finsiel Group
- Telesoft Group
- Netsiel S.p.A.
- Sodalita S.p.A.

SATELLITE SERVICES

- Telespazio S.p.A.

OTHER OPERATIONS

- Stream S.p.A.
- Saiat S.p.A.

SOUTH AMERICA

Major subsidiaries

DOMESTIC WIRELINE

- Latin American Nautilus Group (Latin America)

MOBILE SERVICES

- Tele Nordeste Celular Participações Group (Brazil)
- Tele Celular Sul Participações Group (Brazil)
- Maxitel Group (Brazil)
- TIM Perú S.A.C. (Peru)
- Corporacion Digitel C.A. (Venezuela)

INTERNATIONAL OPERATIONS

- Entel Chile Group (Chile)
- Entel Bolivia Group (Bolivia)

Major affiliates

INTERNATIONAL OPERATIONS

- Telecom Argentina Group (Argentina)
- Brasil Telecom Participações Group (Brazil)
- GLB Serviços Interativos S.A. (Brazil)
- Etec S.A. (Cuba)



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■ REPORT ON OPERATIONS ^(*)

Dear Shareholders,

The consolidated result of the Group for 2001 is a net loss of euro 2,068 million (euro 1,658 million *before minority interest*), after nonrecurring expenses of euro 4,613 million (euro 3,036 million net of the lower tax expense of euro 1,577 million) that were not present in the previous year, and after further net extraordinary items of euro 23 million. The net loss compares to a net income of euro 2,028 million in 2000 (euro 2,892 million *before minority interest*), which included net extraordinary items of euro 184 million.

Nonrecurring expenses. The following nonrecurring expenses impacted the net result for 2001 and had an effect on the financial statements, before income taxes, as detailed below:

(in millions of euro)	Value adjustments to financial assets	Financial expense, net	Extraordinary income and expense	TOTAL
Impact of Argentina	356		50	406
Adjustment to investments, goodwill and losses of subsidiaries and affiliated companies:				
- International operations of the International Operations BU			2,136	2,136
- International operations of the Mobile Services BU			547	547
- Operations of the Internet and Media BU			416	416
- Operations of the Satellite Services and TILab BU	259		32	291
Impact of Stream			248	248
Provision for put option on Seat Pagine Gialle shares		569		569
TOTAL NONRECURRING EXPENSES	615	569	3,429	4,613

- the Adjustment to investments, goodwill and losses of subsidiaries and affiliated companies is consistent with the strategic guidelines of the new industrial plan. In particular, on the basis of a careful examination, adjustments were made to investments and goodwill and provisions were set aside for the losses of subsidiaries and affiliated companies in which it was apparent that the reason for the performance of the companies was not solely due to the economic situation. The most important adjustments refer to:
 - International operations of International Operations BU: GLB Serviços Interativos (Globo.com), 9Telecom group, Entel Bolivia, Solpart Brazil and Telekom Austria.
 - International operations of the Mobile Services BU: Maxitel, Bitel (Tele Celular Sul, Tele Nordeste Celular) and Tim Brasil.
 - Operations of the Internet and Media BU: NetCreations, Matrix, Mondus and costs connected with the restructuring of La 7 television programming.
 - Operations of the Satellite Services and TILab BU: this includes the effect of the writedown of Astrolink by Telespazio, on account of the suspension of the relative project.
- the impact of Argentina comprises the value adjustments made in relation to the evolution of the economic situation in Argentina which caused significant exchange differences after parity between the Argentine peso and the US dollar was abandoned.
- the impact of Stream includes the provision made under the agreement with Vivendi/Canal Plus for the sale of the investment in this company.

◀ (*) For purposes of a more meaningful comparison, the data for 2001 is commented in relation to the data for 2000, which is restated to give effect to the valuation of the Nortel Inversora group (Telecom Argentina) using the equity method

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- the provision for the commitment of the put option on Seat Pagine Gialle S.p.A. shares is connected to the nonrecoverability of the original price to exercise the option, as described on page 198.

Besides the aforementioned nonrecurring expenses, and the improvement in operations, other factors which impacted the net loss are as follows:

- higher financial expense, net of euro 974 million (from euro 610 million in 2000 to euro 1,584 million in 2001) due to higher debt exposure;
- higher value adjustments to financial assets of euro 196 million (from -euro 1,145 million in 2000 to -euro 1,341 million in 2001) referring mainly to the Group's share of the earnings or losses of the companies accounted for using the equity method, including the amortization charge for goodwill;
- lower extraordinary items of euro 161 million (from -euro 184 million in 2000 to -euro 23 million in 2001). In particular, this reduction is due to lower extraordinary expense of euro 801 million (mainly in connection with the extraordinary provisions set aside in 2000), only partly compensated by lower gains on the disposals of investments for euro 640 million;
- lower income taxes of euro 985 million.

Sales and service revenues total euro 30,818 million, with an increase of 13.4% compared to 2000 (+2.7% with a comparable scope of consolidation, that is, considering the same companies in consolidation in both years). The positive performance of domestic mobile telephone services can be compared to a reduction in the contribution made by wireline telephone services, whose revenues from traffic, in spite of a significant increase in terms of minutes, fell due to the effect of the pricing policy.

Gross operating profit of euro 13,619 million shows an increase of 11.5% over 2000 (+6.6% with a comparable scope of consolidation) and represents 44.2% of revenues (45% in 2000). The increase in the amount is substantially due to the good performance by the TIM group (+euro 313 million) and the inclusion in consolidation of the Seat Pagine Gialle group (+euro 444 million) and the Entel Chile group (+euro 374 million).

Operating income, equal to euro 6,674 million, is 3.6% higher than in 2000, representing 21.7% of sales, compared to 23.7% in 2000. The increase is due to the change in the scope of consolidation, the improvement in operations and the negative impact of higher amortization charges for goodwill.

Employees at December 31, 2001 number 109,956, with an increase of 2,785 persons compared to the end of 2000. This is due to the change in the scope of consolidation (especially for the inclusion of the Entel Chile group which led to 4,681 more employees at the end of 2001) and a reduction in Telecom Italia employees.

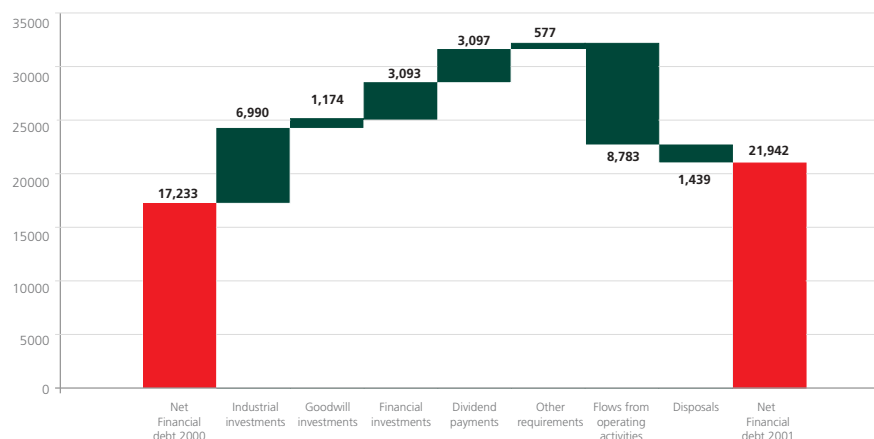
Investments total euro 11,257 million (compared to euro 20,009 million in 2000). Details are as follows:

(in millions of euro)	
Industrial	6,990
Goodwill ⁽¹⁾	1,174
Financial investments	3,093
Total investments	11,257

◀ (1) Goodwill mainly refers to the acquisition of the control of the Entel Chile group.

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Financial debt of euro 21,942 million shows an increase of euro 4,709 million compared to December 31, 2000. The following chart presents the most important items which had an impact on the net financial debt during the year:



The debt structure was also modified in 2001: the portion of debt due beyond one year rose from 31% to 64% (considering the February 2002 issue of notes, the medium/long-term debt increased to 72%) and the average cost of debt was equal to 5.9%.

Investments in former satellite consortiums were sold during year which gave rise to net proceeds of euro 450 million and a net gain of euro 130 million (euro 83 million after taxes). The continuation of the divestiture program will have a positive impact on the financial position in the years after 2001. In particular, the transactions currently underway which produced no impact on the 2001 financial statements refer to: Auna S.A., BDT - Bouygues Decaux Telecom S.A., Lottomatica S.p.A. (offer to purchase accepted), Stream S.p.A..

Telecom Italia S.p.A. The statutory financial statements of the Parent Company Telecom Italia S.p.A. closed with a net income of euro 151 million, after nonrecurring expenses of euro 3,760 million (euro 2,498 million net of lower tax expense of euro 1,262 million), that were not present in the previous year. The net income in 2000 was euro 2,559 million. The proposed dividends, equal to euro 0.3125 per ordinary share and euro 0.3237 per savings share, as in 2000, will be distributed by utilizing retained earnings, for a total of euro 2,184 million.

Market scenario. In recent years, the demand for telecommunications services has grown at an annual rate of approximately 10%, both worldwide and in Europe, driven by the spread of mobile telephone services and by the development of Internet and data services. The sector will continue to expand during the next few years and part of the expenditures of households and businesses will continue to be diverted towards digital products and services, creating more space to integrate transmission services and applications content on-line.

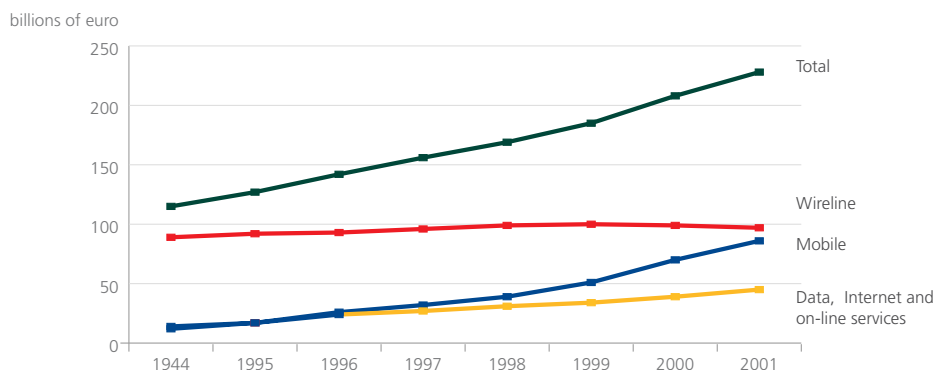
Technological innovation continues, although major revolutions are not expected in the short-to-medium term. However, the services demanded by final users may further stimulate consumption and innovation, especially with regard to the range of value-added services, thus bridging the gap between the potential of available technologies and their use.

The sector experienced a phase of restructuring and consolidation after the strong boost to growth generated by the phenomenon of the Internet and the boom of stock market listings at the beginning of 2000. During 2001, the financial markets partially re-directed

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Performance by the European telecommunications market

(*) Source: Eito 2001.



investments and resources away from "alternative" operators towards those that can leverage assets, have specific qualifications and a consolidated financial strength (typically "incumbent" operators).

The Italian market compared to other major European countries, has a high penetration of mobile telephone services, whereas the spread of Internet services and both residential and business broadband services is still relatively limited. At the end of 2001, in Italy, the penetration rate of the Internet had reached 23% for households and 44% for small and medium-size businesses (SMB). Households almost exclusively use dial-up technology (98%) to access the Internet and only a small proportion (2%) use ADSL broadband for this purpose. However, what has happened in Germany suggests that the spread of ADSL access may occur relatively soon. There is also ample space for growth in data transmission, services connected to the web and new generation mobile services (GPRS, UMTS).

STRUCTURAL PARAMETERS OF THE MAJOR EUROPEAN MARKETS IN 2001

	Italy	Germany	France	UK	Spain
Population ('000)	57,136	82,289	59,554	59,670	40,084
No. of households ('000)	22,925	37,560	24,445	24,707	12,179
GDP per-capita (euro)	23,275	25,498	24,316	22,492	18,539
Mobile penetration (%) (mobile subscribers/population)	86%	80%	65%	83%	82%
Households with PC (%)	32%	35%	39%	43%	37%
Households with cable TV (%)	3%	58%	13%	16%	4%
Households with Internet access (%)	23%	32%	27%	41%	18%
Broadband penetration on residential Internet access (%)	2.1%	13%	10%	1.5%	7.2%
Internet access on SMB (%)	44%	59%	44%	40%	39%
Broadband penetration on Internet SMB (%)	11.5%	20%	21.8%	0.3%	13.7%

(*) Source: Eito 2001 MSDW.

The Telecom Italia Group is one of the largest international companies offering information and communication technology. The companies in the Group, which lead the field in fixed communications, mobile communications, satellite communications, Internet and the media, information technology and research offer integrated innovative services in Italy and abroad. On the domestic market, the Group is both technological and market leader in the segments of fastest growth (mobile, broadband, data transmission). Geographically speaking, its international presence is concentrated in Latin America and in Europe.

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Change in shareholders. In 2001, Olimpia S.p.A. acquired a 26.96% stake in Olivetti S.p.A. from Bell S.A. and from market trading. This event led to a turnover in top management and a significant revision to the Group's development strategies.

Corporate reorganization took the form of the creation of a completely new top-management team, with new structures at Group level and Top Management Committees (Business Management Meetings, Investments Committee and International Steering Committee). The Domestic Wireline, Internet and Media and Information Technology Business Units underwent radical transformation. At Group level, the professional categories were reinforced in order to ensure greater organizational effectiveness, and new procedures were introduced to approve and control investments and acquisitions with the centralization of governing responsibility. A process was begun to streamline the corporate structure with the aim of significantly reducing the number of companies in the Group from the approximately 700 existing at the end of 2001 (561 of which are subsidiaries and affiliated companies).

Strategic guidelines. The fundamental goal decided by the new management for the next few years will be the creation of value, which must be ensured by leveraging assets and by strengthening the financial structure in order to sustain further growth.

These are the priorities for industrial operations indicated by the new management:

- to safeguard the profit margins of domestic businesses, increasing the value of the existing customer portfolio by strengthening its leadership position in the fastest-growing segments (web services, broadband, GPRS, UMTS), and also by augmenting the value of the Group's already considerable competence in information technology and systems integration. In wireline telephone services, Telecom Italia will strive to achieve major improvements in its service to the customer, in its management processes and in the efficiency of its distribution channels. In domestic mobile telephone services, TIM will defend its leading role by exploiting all the opportunities arising from new technologies, starting with GPRS and then UMTS;
- to concentrate the Group's foreign presence in markets where it has control of the activities and to pinpoint sustainable directions of development on an international level. In keeping with these priorities, the strategy of the Telecom Italia Group will be to complete a divestiture program for investments where it does not have control, in non-core businesses and in marginal markets. TIM will continue to pursue its foreign development policy, concentrating particularly on Latin America, through the creation of a common GSM platform and by stepping up the launch of services that offer a high degree of Group synergies;
- to manage the Group according to strict criteria of efficiency. The introduction of professional categories and the unification of the criteria for the return on investments will make it possible to monitor expenditures even more effectively, both at the proposal stage and at the stage of controlling the results.

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■ ECONOMIC AND FINANCIAL REVIEW OF TELECOM ITALIA GROUP ⁽¹⁾

RESULTS OF OPERATIONS

◀ (1) For purposes of a more meaningful comparison, the data for 2001 is commented in relation to the data for 2000, which is restated to give effect to the consolidation of the Nortel Inversora group (Telecom Argentina) using the equity method

CONSOLIDATED STATEMENTS OF INCOME

	2001	2000 ^(*)	2000	Change amount (a)-(b)	%
(in millions of euro)	(a)	(b)	(c)		
A. Sales and service revenues	30,818	27,169	28,911	3,649	13.4
Changes in inventories of work in progress, semifinished and finished goods	-	25	28	(25)	(100.0)
Changes in inventory of contract work in process	(115)	251	251	(366)	°
Increases in capitalized internal construction costs	581	831	912	(250)	(30.1)
Operating grants	24	20	20	4	20.0
B. Standard production value	31,308	28,296	30,122	3,012	10.6
Raw materials and outside services ^(**)	(13,042)	(11,356)	(11,999)	(1,686)	14.8
C. Value added	18,266	16,940	18,123	1,326	7.8
Labor costs ^(**)	(4,647)	(4,723)	(5,005)	76	(1.6)
D. Gross operating profit	13,619	12,217	13,118	1,402	11.5
Depreciation and amortization	(6,275)	(5,209)	(5,647)	(1,066)	20.5
of which goodwill	(1,022)	(168)	(180)	(854)	°
Other valuation adjustments	(455)	(442)	(525)	(13)	2.9
Provisions to reserves for risks and charges	(278)	(146)	(158)	(132)	90.4
Net other income (expense)	63	20	17	43	215.0
E. Operating Income	6,674	6,440	6,805	234	3.6
Net investment and financial income (expense) and value adjustments	(3,955)	(1,454)	(1,623)	(2,501)	172.0
of which value adjustments	(1,956)	(1,145)	(1,159)	(811)	70.8
F. Income before extraordinary items and taxes	2,719	4,986	5,182	(2,267)	(45.5)
Net extraordinary income (expense)	(3,452)	(184)	(214)	(3,268)	°
G. Income before taxes	(733)	4,802	4,968	(5,535)	°
Income taxes	(925)	(1,910)	(2,020)	985	(51.6)
H. Net income (loss) before minority interest	(1,658)	2,892	2,948	(4,550)	°
Minority interest	(410)	(864)	(920)	454	(52.5)
I. Net income (loss)	(2,068)	2,028	2,028	(4,096)	°

(*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

(**) Reduced by related cost recoveries.

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Sales and service revenues amounted to euro 30,818 million in 2001, an increase of 13.4% over 2000 (+2.7% with a comparable scope of consolidation, that is, only considering the same companies in consolidation for both years).

Revenues, net of the amount due to other telecommunications operators, totaled euro 27,104 million and increased by euro 2,649 million (+10.8%) compared to 2000. The increase in revenues is due to the following:

- the positive performance of mobile telephone services countered by a reduction in wireline telephone services in Italy, whose revenues from traffic, in spite of a significant increase in terms of minutes – show a reduction in the average return on traffic (retail and wholesale) that went from euro 5.5 cents to euro 3.9 cents per minute;
- the contribution made by the new companies included in the scope of consolidation, especially the Entel Chile group (euro 1,247 million) and the Seat Pagine Gialle group (euro 1,707 million), that was partly reduced by the exclusion of the companies in the manufacturing and installations sector (Sirti and Italtel groups).

Sales and service revenues can be analyzed as follows:

GEOGRAPHIC AREA						
(in millions of euro)	2001		2000 (*)		2000	
Italy	24,863	80.7%	23,033	84.8%	23,037	79.7%
Other European countries	1,817	5.9%	1,809	6.7%	1,843	6.4%
North America	913	3.0%	174	0.6%	185	0.6%
Central and South America	2,592	8.4%	1,555	5.7%	3,217	11.1%
Australia, Africa and Asia	633	2.0%	598	2.2%	629	2.2%

(*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

Raw materials and outside services totaled euro 13,042 million, 14.8% higher than in 2000 (+2.8% with a comparable scope of consolidation, that is, only considering the same companies in consolidation for both years). This increase mainly referred to the following:

- change in scope of consolidation, especially the contribution of the Entel Chile group (euro 752 million) and the Seat Pagine Gialle group (euro 941 million), that were only partly offset by the exclusion of the manufacturing and installations sectors;
- higher rent costs for Telecom Italia on the buildings sold to IM.SER at the end of 2000 (euro 252 million) countered by lower depreciation and amortization charges;
- increase in costs to operate and develop mobile telecommunications in and outside Italy. This item included euro 524 million for the TLC license fee due to the state administration, of which euro 290 million relate to Telecom Italia, euro 182 million to TIM and euro 52 million to foreign subsidiaries.

The percentage of raw materials and outside services to revenues was 42.3% (41.8% in 2000).

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Labor costs, totaling euro 4,647 million, decreased by euro 76 million compared to 2000 (-5.6% with a comparable scope of consolidation). The reduction, due to the exclusion from the scope of consolidation of the Sirti and Italtel groups (euro 383 million) and the decrease in Telecom Italia costs following employee layoffs, was only partly offset by the inclusion in the scope of consolidation of the Seat Pagine Gialle group (euro 360 million) and the Entel Chile group (euro 114 million). As a percentage of revenues, labor costs fell from 17.4% in 2000 to 15.1% in 2001. Employees at December 31, 2001 numbered 109,956 (107,171 at December 31, 2000). The breakdown is as follows:

	2001	2000 (*)	2000
Italy	90,628	93,817	93,817
Abroad	19,328	13,354	20,852
Total employees	109,956	107,171	114,669

(*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

Gross operating profit, of euro 13,619 million increased by euro 1,402 million, compared to 2000, (+11.5%; +6.6% with a comparable scope of consolidation) and represented 44.2% of revenues (45.0% in 2000). The increase in the gross operating profit is substantially due to the good performance of the TIM group (+euro 313 million) and the inclusion in the scope of consolidation of the Seat Pagine Gialle group (+euro 444 million) and the Entel Chile group (+euro 374 million).

Depreciation and amortization, totaled euro 6,275 million (euro 5,209 million in 2000). Details are as follows:

(in millions of euro)	2001	2000 (*)	2000
Fixed assets	4,034	4,131	4,515
Intangible assets	2,241	1,078	1,132
<i>of which goodwill</i>	<i>1,022</i>	<i>168</i>	<i>180</i>
Total depreciation and amortization	6,275	5,209	5,647

(*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

The increase in the amortization of goodwill (euro 854 million) was mainly due to the acquisition of Seat Pagine Gialle (euro 574 million), the acquisition of Jet Multimedia (euro 102 million) and other companies in the Seat Pagine Gialle group (euro 99 million).

Other valuation adjustments, totaling euro 455 million, were substantially in line with those of 2000. They mainly referred to writedowns to reduce receivables from customers to their estimated realizable value. They referred, in particular, to:

- Telecom Italia: euro 159 million
- Seat Pagine Gialle group: euro 73 million
- Entel Chile group: euro 57 million
- TIM: euro 52 million

Provisions to reserves for risks and charges, amounting to euro 278 million, increased by euro 132 million principally due to the inclusion in the scope of consolidation of the Seat Pagine Gialle group (euro 31 million) and higher provisions set aside by Telespazio (+euro 48 million) for the closing of the Astrolink contract.

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Net other income (expense), showed an income balance of euro 63 million (euro 20 million in 2000). It refers to:

(in millions of euro)	
Indirect duties and taxes	(120)
Net losses on sales	(17)
Fees charged by the telecommunications companies to customers for late payment of telephone bills	112
Portion of capital grants credited to income during the year	73
Other income and expense, net	15
Total	63

Operating income, of euro 6,674 million (euro 6,440 million in 2000) increased by euro 234 million compared to 2000, (+3.6%); operating income represents 21.7% of revenues compared to 23.7% in 2000.

The increase in operating income was mainly attributable to the improvement shown by Telecom Italia (+euro 388 million) – connected with the reduction in the depreciation charge – the good results of the TIM group (+euro 148 million) and the negative effect of a higher amortization charge for goodwill (euro 854 million).

Net investment and financial income (expense) comprised the following:

(in millions of euro)	2001	2000 (*)	2000
Net investment income	154	301	302
Net financial expense	(2,153)	(610)	(766)
Value adjustments to financial assets	(1,956)	(1,145)	(1,159)
Total	(3,955)	(1,454)	(1,623)

(*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

Details are as follows:

- net investment income related mainly to dividends received from unconsolidated subsidiaries and affiliated companies and other companies and net gains realized on the sales of listed stocks carried in current assets;
- net financial expense reflected:
 - the increase in the financial exposure of the Group;
 - the inclusion in the scope of consolidation of the groups Maxitel (euro 187 million), Seat Pagine Gialle (euro 85 million) and Entel Chile (euro 67 million);
 - provision relating to the forward commitment to purchase Seat Pagine Gialle shares for a total of euro 569 million in connection with the estimate of the nonrecoverability of the original price to exercise the option.
- value adjustments to financial assets mainly referred to the Group's share of the earnings and losses of the unconsolidated companies valued using the equity method, which also include the amortization of goodwill upon the purchase of these investments equal to euro 316 million (euro 462 million in 2000). In particular, value adjustments include:
 - the loss by IS TIM (Turkey) of euro 334 million, deriving not only from expenses connected with the start-up phase but also the effects of the currency crisis in Turkey and the application of hyperinflation accounting principles;
 - the writedown of Stream (euro 241 million) and the writedown to adjust the value of listed stocks and securities carried in current assets to market price (euro 291 million);

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- the loss by the Nortel Inversora group of euro 238 million, connected with the economic crisis in Argentina and mainly due to the exchange losses on financial debt;
- the writedown of Astrolink of euro 259 million, made by Telespazio in connection with the suspension of the relative project.

Net extraordinary income (expense), showed an expense balance of euro 3,452 million (-euro 184 million in 2000), made up of euro 852 million of income and euro 4,304 million of expense.

Extraordinary income included:

- gains on the sale of the 70% holding in Mirror International Holding (the company through which the satellite companies were contributed to the Lehman Brothers group) for euro 170 million and the 30% holding in Mediterranean Nautilus S.A. to the Israeli company F.T.T. Investment for euro 94 million;
- income (euro 32 million) deriving from the partial cancellation, by the Council of State, of resolution No. 7533/1999 by the Antitrust Authority under which TIM and Omnitel Pronto Italia were levied administrative fines for the alleged violation of antitrust laws relating to the price fixing of fixed-mobile rates;
- income from the release of reserves by Telecom Italia set aside in prior years for risks which did not materialize (euro 120 million, euro 62 million of which relate to the reserve for the contract with Iraq and euro 50 million to the reserve for corporate restructuring).

Extraordinary expense comprised:

- euro 2,984 million for the writedown of goodwill relating to consolidated companies (9Telecom group, Entel Bolivia, Entel Chile group, Maxitel group, Tele Celular Sul group, Tele Nordeste Celular group, Tim Brasil, Med-1 group and certain companies in the Seat Pagine Gialle group) and companies accounted for by the equity method (GLB Serviços Interativos, Solpart Participacoes, Telekom Austria and the Nortel Inversora group), as well as other provisions relating to investments. Such writedowns have been made on a consistent basis according to the new business plans and market trends;
- euro 248 million relating to the provision for expenses connected with the Vivendi/Canal Plus agreement for the transfer of the investment in Stream;
- euro 380 million of expenses for employee cutbacks and layoffs (of which euro 203 million refer to Telecom Italia);
- euro 155 million for social security charges under Law 58/1992 to guarantee uniform status under the former Telephone Employees Pension fund (FPT) which, as required by the 2000 Finance Bill, has become part of the general Employees Pension Fund;
- euro 77 million of extraordinary contributions to INPS – established by the 2000 Finance Bill for the three years 2000-2002 to meet the higher financial requirements covered by the rules of the fund that was abolished;
- euro 85 million resulting from the decision to reposition the broadcasting station La 7 as a consequence of the closing of a series of contracts.

Income taxes, totaled euro 925 million and decreased by euro 985 million from 2000 due to a reduction in the taxable base caused mainly by the extraordinary expenses of Telecom Italia and TIM for the writedown of investments.

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FINANCIAL CONDITION

CONSOLIDATED BALANCE SHEETS

(in millions of euro)	12/31/2001 (a)	12/31/2000 (*) (b)	12/31/2000 (c)	Change (a)-(b)
A. Intangibles, fixed assets and long-term investments				
Intangible assets	16,197	15,571	16,037	626
Fixed assets	21,757	20,721	23,425	1,036
Long-term investments:				
- Equity investments and advances on future capital contributions	6,586	7,985	7,598	(1,399)
- Other	478	1,071	1,077	(593)
	45,018	45,348	48,137	(330)
B. Working capital				
Inventories	636	675	726	(39)
Trade accounts receivable	8,346	7,890	8,327	456
Other assets	5,047	3,668	3,751	1,379
Trade accounts payable	(6,793)	(6,936)	(7,360)	143
Reserves for risks and charges	(3,053)	(1,599)	(1,769)	(1,454)
Other liabilities	(6,601)	(5,804)	(5,937)	(797)
	(2,418)	(2,106)	(2,262)	(312)
C. Invested capital, net of operating liabilities (A+B)	42,600	43,242	45,875	(642)
D. Reserve for employee termination indemnities	(1,350)	(1,319)	(1,319)	(31)
E. Invested capital, net of operating liabilities and reserve for employee termination indemnities (C+D)	41,250	41,923	44,556	(673)
Financed by:				
F. Shareholders' equity (**)				
Parent Company interest	13,522	18,821	18,821	(5,299)
Minority interest	5,786	5,869	6,706	(83)
	19,308	24,690	25,527	(5,382)
G. Medium/long-term debt	16,083	6,733	8,268	9,350
H. Net short-term borrowings				
Short-term borrowings	9,114	14,745	15,136	(5,631)
Liquid assets and short-term financial assets	(3,505)	(4,265)	(4,434)	760
Financial accrued expenses and deferred income, net	250	20	59	230
	5,859	10,500	10,761	(4,641)
(G+H)	21,942	17,233	19,029	4,709
I. Total (F+G+H)	41,250	41,923	44,556	(673)

(*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

(**) Net of "Receivables from shareholders for capital contributions".

The balance sheet of the Telecom Italia Group showed a net invested capital of euro 41,250 million (euro 41,923 million at December 31, 2000), of which 46.8% is financed by shareholders' equity (58.9% at December 31, 2000) and 53.2% by net borrowings (41.1% at December 31, 2000).

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Intangibles, fixed assets and long-term investments, of euro 45,018 million showed a decrease of euro 330 million compared to December 31, 2000 and include:

INTANGIBLE ASSETS

(in millions of euro)	2001	2000 (*)	2000
At January 1	15,571	2,737	2,737
Additions:			
- goodwill	1,174	9,109	9,109
- other additions	2,736	3,970	4,010
Disposals	(12)	(12)	(12)
Amortization	(2,241)	(1,078)	(1,132)
Writedowns	(1,308)	(36)	(36)
Change in scope of consolidation	311	900	1,366
Translation adjustment and other	(34)	(19)	(5)
At December 31	16,197	15,571	16,037

FIXED ASSETS

(in millions of euro)	2001	2000 (*)	2000
At January 1	20,721	23,508	23,508
Additions	4,254	3,405	3,889
Disposals	(172)	(95)	(103)
Sale of "Large Buildings" business segment		(2,392)	(2,392)
Depreciation	(4,034)	(4,131)	(4,515)
Writedowns	(11)	(11)	(11)
Change in scope of consolidation	1,345	367	2,978
Translation adjustment and other	(346)	70	71
At December 31	21,757	20,721	23,425

(*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

Additions for goodwill in intangible assets for the year 2001 included euro 731 million for the acquisition of the control of the Entel Chile group. Other additions included the costs of the awarding of the new mobile telephone licenses in Brazil and Greece (euro 1,080 million). *Writedowns of intangible assets* (euro 1,308 million) included the writedowns of goodwill made as part of the mentioned adjustment to the value of some investment holdings in the wireline, mobile and Internet areas for euro 1,303 million.

Both for intangible assets and fixed assets, the *change in scope of consolidation* referred to the Entel Chile group and more companies in the Seat Pagine Gialle group; the translation adjustment mainly referred to the Brazilian companies and the Entel Chile group.

LONG-TERM INVESTMENTS

(in millions of euro)	2001	2000 (*)	2000
At December 31	7,064	9,056	8,675

(*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

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The reduction in long-term investments of euro 1,992 million, compared to 2000, derives from the following:

- Additions: euro 3,093 million
- Disposals: -euro 842 million
- Cancellation of Telecom Italia treasury stock: -euro 711 million
- Investments accounted for by the equity method: -euro 1,921 million
- Change in scope of consolidation: -euro 497 million
- Extraordinary writedowns of foreign investments: -euro 1,078 million

Working capital showed a negative balance of euro 2,418 million (-euro 2,106 million at December 31, 2000).

The decrease of euro 312 million was due to the following:

- the increase in "trade accounts receivable", from euro 7,890 million at the end of 2000 to euro 8,346 million, connected principally to the consolidation of the Entel Chile group (euro 337 million) and the increase in the receivables of Seat Pagine Gialle group (euro 172 million), Tele Sistemi Ferroviari (euro 86 million) and Telespazio (euro 59 million). The securitization of the receivables by Telecom Italia also had an effect on trade accounts receivable from residential customers, which led to a reduction of euro 877 million, of which euro 684 million were not yet due. The transaction is fully described in the notes to the financial statements of Telecom Italia, to which reference should be made;
- the increase in "other assets" from euro 3,668 million at the end of 2000 to euro 5,047 million, mainly attributable to deferred tax assets and current taxes receivable by Telecom Italia and the TIM group;
- the decrease in "trade accounts payable" from euro 6,936 million at the end of 2000 to euro 6,793 million. This was due to a reduction in the payables of Telecom Italia (-euro 807 million), Telespazio (-euro 174 million), that were partly offset by the inclusion in the scope of consolidation of the Entel Chile group (+euro 201 million) and by the higher debt of the mobile sector (+252 million), of the Latin American Nautilus group (+euro 110 million) and of Netsiel (+euro 88 million);
- the increase in the "reserves for risks and charges" from euro 1,599 million at the end of 2000 to euro 3,053 million, mainly ascribed to the extraordinary provisions to the reserve for losses of subsidiaries and affiliated companies which is consistent with the strategic guidelines of the recently designed plan (euro 603 million), the provision for the forward commitment of Seat Pagine Gialle shares (euro 569 million) and the expenses connected with the transfer of Stream (euro 248 million);
- the increase in "other liabilities" from euro 5,804 million at the end of 2000 to euro 6,601 million, principally ascribed to Telecom Italia and TIM.

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Shareholders' equity totaled euro 19,308 million (euro 24,690 million at the end of 2000), of which euro 13,522 million (euro 18,821 million at December 31, 2000) is Telecom Italia's interest and euro 5,786 million (euro 5,869 million at December 31, 2000) the minority interest. The change of -euro 5,382 million is analyzed below:

(in millions of euro)	2001	2000 (*)	2000
At January 1	24.690	19.788	19.788
Net income (loss) of the Parent Company and minority interest	(1.658)	2.892	2.948
Dividends to third parties paid by:	(3.097)	(3.049)	(3.049)
- <i>Telecom Italia</i>	(2.309)	(2.327)	(2.327)
- <i>TIM</i>	(743)	(657)	(657)
- <i>Other Group companies</i>	(45)	(65)	(65)
Cancellation of the Telecom Italia treasury stock	(711)	-	-
Conversion of savings shares into TIM ordinary shares	-	4.169	4.169
Change in scope of consolidation	358	665	1.446
Other changes	(274)	225	225
At December 31	19.308	24.690	25.527

(*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

Net debt, of euro 21,942 million showed an increase of euro 4,709 million compared to the end of 2000, caused by the following factors:

increasing debt:

- dividends paid out (euro 3,097 million)
- investments in Turkey (euro 1,906 million), Brazil and Greece (euro 1,080 million)
- acquisition and consolidation of the controlling interest in Entel Chile (euro 1,858 million)
- recapitalization of Stream (euro 173 million)

decreasing debt:

- sale of the satellite consortiums (euro 450 million)
- cash flows from operating activities (euro 8,783 million).

During the year Telecom Italia and Sogerim issued notes as part of the program to restructure the Group's debt.

In June 2001, a securitization program was begun for trade accounts receivable generated by the services rendered to residential customers of the Telecom Italia Domestic Wireline BU and the customers of Path.Net (a wholly-owned subsidiary of Telecom Italia, which provides services to the Public Administration).

The above securitization transaction led to an improvement in net debt at December 31, 2001 of about euro 848 million.

Gross debt is detailed in the following table:

(in millions of euro)	12/31/2001				12/31/2000 (*)				12/31/2000
	euro	%	Currency	%	Total	%	Total	%	Total
Medium/long-term debt	12,420	59	3,663	86	16,083	64	6,733	31	8,268
Short-term borrowings	8,534	41	580	14	9,114	36	14,745	69	15,136
Total	20,954	100	4,243	100	25,197	100	21,478	100	23,404

(*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

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FINANCIAL PERFORMANCE

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions of euro)	2001	2000 (*)	2000
A. Net debt, at beginning of year	(17,233)	(8,138)	(8,138)
B. Change in scope of consolidation	(839)	(834)	(2,630)
C. Cash flows - operating activities			
Net income (loss)	(1,658)	2,892	2,948
Depreciation and amortization	6,275	5,209	5,647
(Gains) losses on sales of intangibles, fixed assets and long-term investments	(330)	(1,089)	(1,091)
Writedowns of intangibles, fixed assets and long-term investments	4,039	1,120	1,134
Change in working capital (**)	290	(1,751)	(1,595)
Net change in reserve for employee termination indemnities	31	(177)	(177)
Translation adjustments and other changes	136	(409)	(581)
	8,783	5,795	6,285
D. Cash flows - investing activities			
Intangibles, fixed assets and long-term investments:	(11,257)	(19,484)	(20,009)
- intangible assets:			
- goodwill	(1,174)	(9,109)	(9,109)
- other investments	(2,736)	(3,970)	(4,010)
- fixed assets	(4,254)	(3,405)	(3,889)
- long-term investments	(3,093)	(3,000)	(3,001)
Proceeds from sale, or redemption value, of intangibles, fixed assets and long-term investments	1,439	4,276	4,311
	(9,818)	(15,208)	(15,698)
E. Cash flows - financing activities			
Contribution by shareholders	240	4,174	4,174
Capital grants	22	27	27
	262	4,201	4,201
F. Dividends	(3,097)	(3,049)	(3,049)
G. Change in net debt (B+C+D+E+F)	(4,709)	(9,095)	(10,891)
H. Net debt, at end of year (A+G)	(21,942)	(17,233)	(19,029)

(*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

(**) The difference with respect to the consolidated balance sheets is due to the movements in capital grants.

The change in net debt was due to the following:

(in millions of euro)	2001	2000 (*)	2000
Increases (decreases) in medium/long-term debt	9,350	1,568	3,103
Increases (decreases) in short-term borrowings	(4,641)	7,527	7,788
Total	4,709	9,095	10,891

(*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

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EVENTS SUBSEQUENT TO DECEMBER 31, 2001

Besides the events described in other parts of this report, significant events subsequent to December 31, 2001 are commented below:

2002-2022 notes reserved for employees of the Telecom Italia Group

On January 1, 2002, following the resolution passed at the Board of Directors' Meeting on July 27, 2001, the offer began for subscription to the "Telecom Italia 2002 – 2022 floating rate notes, open special series, reserved for the employees of the Telecom Italia Group, in service and retired", maturing January 1, 2022, for a maximum amount of euro 1 billion. At the same time, the SIP 1992 – 2010 notes with features similar to the new notes were called for early redemption.

The new notes, which pay gross interest semiannually (payable on January 1 and July 1 of each year not in advance), can be subscribed to over the entire period of the notes until the maximum offer has been entirely subscribed and also contain a right to sell by the noteholder to Telecom Italia that can be exercised at any time at face value; the notes can also be called for early redemption by the Company at each interest payment date at face value, with notice at least three months in advance. As of March 26, about euro 160 million of notes had been subscribed to and noteholders numbered 10,061.

Issue of notes

In February, a note issue was concluded for a total of euro 2.5 billion. The issue is divided into two tranches of euro 1.25 billion each, at a fixed rate of interest, respectively, at maturity dates of February 1, 2007 and February 1, 2012. This issue is part of the "Global Note Program" aimed at restructuring the Group's debt and whose total amount, by vote of the Board of Directors on December 18, 2001, has been raised from US dollars 10 to 12 billion.

Conclusion of the agreement for the revision of the put/call options on Seat Pagine Gialle shares

On February 25, Telecom Italia and the JPMorgan Chase group signed the definitive agreements relating to the re-negotiation of the put and call options on Seat Pagine Gialle shares; the economic effects of this agreement are disclosed in the Notes to the financial statements of Telecom Italia.

Approval of the 2001 interconnection price list by AGCOM

On March 4, the Regulator approved Telecom Italia's interconnection price list for 2001, after having made some technical and economic changes. Some of the most significant changes, the economic repercussions of which are reflected in 2001 accounts, include the reduction of the costs for the interconnection of phone services and configuration costs for the exchanges; with regard to the unbundling of the local loop, the Regulator maintained the prices applied in 2000, extending the range of services offered by Telecom Italia to interconnected operators.

Telephone calls via Internet protocol

In February, Telecom Italia began to adapt the first systems to allow the transmission of voice and data using Internet protocol. The conversion of the network to the IP protocol, which will lead to a reduction in the costs because of the operation of a single infrastructure, will become operational as early as June (for telephone traffic carried on the Milan-Rome route), and, by the end of the year, 10% of national calls carried on the carrier network is expected to be transferred to Internet protocol.

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Telecom Italia's new rate plans

Rate rebalancing has been operational since February 1. Residential basic subscriber charges have been increased by 6.3% (from euro 10.69 to euro 11.36 a month, net of VAT) while the weekend rate (euro 0.02582 per minute plus the unit charge when the call is answered and VAT) has been extended from 6.30 p.m. to 8 a.m. on weekdays and from midnight until midnight on Saturday, Sunday and public holidays for all local and long-distance calls. Further incentives are planned for families and, in particular, one hour of free local calls for every two-month period and free subscription to innovative services (answering service, the "400" information service, automatic re-dialing if the number called is engaged, and the sending and receipt of SMS). In March, Telecom Italia launched its new ADSL rate package. For the wholesale market, from March 16, a package has been marketed with a capacity of up to 640 Kbit/s, directed at other operators and Internet Service Providers, with discounts of up to 45% on previous prices, improved quality and standardization of the levels of service, and reduction of the time taken to activate connections. As far as retailing is concerned, April 15 will see the start of the marketing of two different rate plans directed at families and small and medium-size companies: one based on "consumption" and the other on a "flat" rate, the latter having unlimited access to Internet traffic.

Divestiture program

- **Lottomatica:** Finsiel S.p.A. accepted the offer of purchase by the Tyche S.p.A. (De Agostini group) contributing its 18.3% investment in Lottomatica S.p.A. Proceeds for Finsiel were euro 211 million.
- **Auna:** in December, an agreement was reached with the Telecom Italia Group and Endesa, Union Fenosa and Santander Central Hispano for the sale of the 26.89% interest held by the Telecom Italia Group in the company. The agreements, concluded in January and subject to normal regulatory approvals, will give rise to net proceeds of euro 1,850 million.
- **BDT:** in February 2002, the Telecom Italia Group reached an agreement for the sale of the 19.61% stake held by TIM International in BDT (Bouygues Decaux Telecom), which controls 55% of Bouygues Telecom. The value of the transaction is equal to about euro 750 million.
- **Stream:** an agreement was reached with News Corporation and Vivendi Universal/Canal+ for the sale of the 50% stake in Stream held by Telecom Italia for a price of US \$42 million. The agreement, which is subject to the approval of the appropriate Italian regulatory agencies, calls for the simultaneous sale of Telecom Italia's 50% holding to News Corporation and the purchase of 100% of the capital of Stream by the French group Vivendi Universal. At the time of sale, Telecom Italia has agreed to waive its right to the trade accounts receivable due from Stream of about US \$80 million. The economic effects of this transaction have already been set aside in the extraordinary provisions.
- **Telemaco Immobiliare:** as part of a broader plan to leverage the value of the investments in real estate activities, negotiations are underway for the sale of the 40% stake in Telemaco Immobiliare held by Telecom Italia.

Buy-back of Telecom Italia stock

By authorization of the ordinary shareholders' meeting of November 7, 2001, the Company, in March, began to buy-back treasury stock on the market according to the terms and in the manner established by existing laws and the shareholders' resolution. As of March 26, 2002, a total of No. 2,225,000 Telecom Italia savings shares had been bought as treasury stock at an average price of euro 6.06 per share, for a total investment of about euro 13.5 million.

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OUTLOOK FOR 2002

For the current year, the Group expects there to be a growth in operating income that is at least in line with that of the prior year. The Group confirms its commitment to reduce the level of net financial debt through the careful management of investments and costs and the continuation of its divestiture program.

RELATED PARTY TRANSACTIONS

With reference to art. 2428 of the Italian Civil Code and Consob communications No. DAC/RM 97001574 dated February 20, 1997 and No. DAC/RM 98015375 dated February 27, 1998 concerning related party transactions among Group companies, the effects of such transactions on the balance sheet and statement of income of the consolidated financial statements at December 31, 2001 of Telecom Italia Group are presented in the following table. Beginning from the 2001 financial statements, the disclosure concerning the effects of related party transactions between Telecom Italia S.p.A. and the relative parent companies, subsidiaries and affiliated companies are no longer presented in the report on operations, inasmuch as such transactions, which are already partly included in those of the Telecom Italia Group, are reported – to supplement this disclosure – in the notes to the statutory financial statements of Telecom Italia S.p.A..

In the consolidated financial statements, the effects of intercompany transactions on the balance sheet and statement of income, that is, all transactions between consolidated companies, have been eliminated.

All related party transactions, including intercompany transactions, fall within the ordinary operations of the group, are governed by market terms or on the basis of specific laws, and there are no transactions of an unusual and exceptional nature.

MAJOR STATEMENT OF INCOME AND BALANCE SHEET COMPONENTS

	Transactions with:		Nature of transactions
	unconsolidated subsidiaries and affiliates	parent companies, subsidiaries and affiliates of parent companies	
(in millions of euro)			
Sales and service revenues	877	4	These comprise revenues from Astrolink (euro 296 million), Brasil Telecom (euro 120 million), Telecom Argentina (euro 119 million), Teleleasing (euro 82 million), Auna group (euro 63 million), Stream (euro 55 million) and Lottomatica (euro 53 million)
Raw materials and outside services	567	19	These mainly comprise rent payable to IMSER (euro 199 million) and Telemaco Immobiliare (euro 77 million) and Tlc service costs from Etecsa Cuba (euro 79 million)
Net other income (expense)	25	–	These mainly relate to cost recoveries for personnel on loan to some subsidiaries and affiliates
Net financial income (expense)	(8)	–	These include accrued interest income on loans made to certain foreign subsidiaries and affiliates (euro 22 million) and interest expense payable to Teleleasing (euro 30 million) for financial leasing transactions
Loans in long-term investments	119	–	These refer mainly to loans made to BDT (euro 108 million)
Financial receivables	213	–	These comprise mainly short-term loans receivable from Stream (euro 122 million), IS Tim (euro 29 million) and Telekom Srbija (euro 23 million)
Financial payables	570	600	These refer mainly to payables for finance leases to Teleleasing (euro 522 million) and a payable by Softe to Olivetti Finance N.V. (euro 600 million)

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MAJOR STATEMENT OF INCOME AND BALANCE SHEET COMPONENTS

	Transactions with:		Nature of transactions
	unconsolidated subsidiaries and affiliates	parent companies, subsidiaries and affiliates of parent companies	
(in millions of euro)			
Trade accounts receivable	428	2	They mainly regard receivables from Auna group (euro 90 million), Stream (euro 82 million), Telekom Srbija (euro 56 million net of provisions), Telecom Argentina (euro 21 million net of provisions) and Teleleasing (euro 18 million)
Trade accounts payable	473	12	These refer to supply contracts connected with operating and investment activities: they include payables to the Italtel group (euro 173 million), Siemens Informatica (euro 51 million), Teleleasing (euro 42 million) and advances from Consorzio Telcal (euro 85 million)
Contract work in process	116	-	These refer mainly to activities on behalf of Consorzio Telcal for the Telematico Calabria Plan (euro 110 million)
Guarantees and collateral	1,261	-	These include sureties given on behalf of the Auna group (euro 510 million), IS Tim (euro 228 million) and Stream (euro 86 million) as well as collateral given on behalf of IS Tim (euro 147 million)
Investments in fixed assets and intangibles	660	5	These mainly consist of acquisitions telephone exchanges from the Italtel group (euro 567 million) and information and computer projects from Siemens Informatica (euro 31 million)

Related party transactions in 2001 also include those by the Telecom Italia Group with the Pirelli group:

(in millions of euro)	2001	
Sales and services revenues	6.9	These mainly refer to telephone services
Trade accounts receivable and other	0.6	These mainly refer to the above-mentioned telephone services
Trade accounts payable and other	6.4	These mainly refer to the supply contracts connected with investment activities
Investments in fixed assets and intangibles	21.5	These mainly refer to purchases of telecommunications cables.

In order to provide more complete information, the following comments contained in the six-month report are reported here and concern the relationships between Telecom Italia and companies in which the directors of Telecom Italia (who resigned in the second half) held specific positions, as well as relationships with key managers and/or directors of the company who resigned in the meantime:

- in April, Telecom Italia Lab (a 100%-owned subsidiary of Telecom Italia), joined with the Ramius Capital Group, an American investment management company (in which the then director, Peter Cohen, was the CEO), to set up an United States-registered venture capital fund called Saturn Venture Partners which targets investments in fixed and mobile TLC technologies and service infrastructures. The fund's participants also included (and still include) the companies TIM, Olivetti and Hopa, in which the then Chairman Roberto Colaninno and the director Emilio Gnutti were shareholders and directors;
- the law firm of Studio Bonelli, Erede, Pappalardo in which the then Deputy Chairman Mr. Erede was the senior partner, has performed professional legal services on behalf of Telecom Italia and some companies in the Group;

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- in March 2001, Telecom Italia purchased a 12.3% stake in Netesi S.p.A. – with headquarters in Milan and operating in the area of on-line applications services – by subscribing to a first tranche of new shares issued for a capital increase for an investment of approximately euro 6.2 million. In September 2001, Telecom Italia's stake rose to 17.98% following a successive increase in share capital. Netesi's shareholders included and still include, among others, Omniaholding (a related party of Telecom Italia, through the then Chairman Roberto Colaninno) with a current stake of 7.92%;
- in August 2001, Huit II, a subsidiary of Telecom Italia, purchased - by exchanging 186 million Seat Pagine Gialle ordinary shares - a 100% stake in ISM S.r.l. (owned by Messrs. Ainio and Gualandri, both of whom are managers and directors of companies in the Group in service at the time), a company that holds – through the subsidiary Vertico N.V. - a 33.3% stake in Matrix S.p.A.;
- furthermore, two executives of Telecom Italia (in service at the time) have each purchased a building from Telecom Italia, paying the market price.

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■ ECONOMIC AND FINANCIAL REVIEW OF THE BUSINESS UNITS OF TELECOM ITALIA GROUP

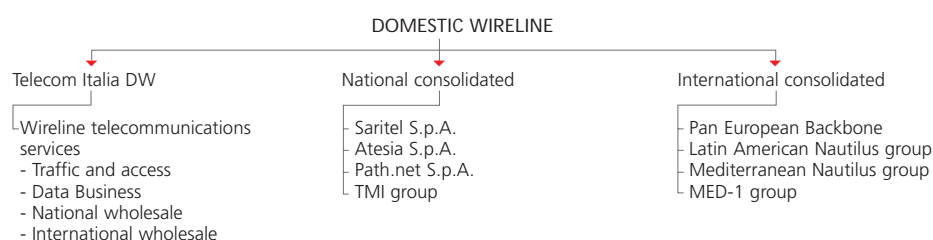
DOMESTIC WIRELINE



- ▶ **Strengthening of the market leadership position**
- ▶ **Increase in "transported" traffic and on-line traffic**
- ▶ **Launch of commercial policies and innovative services**
- ▶ **Development of high-connectivity international networks**
- ▶ **Change in the organizational structure**

■ THE STRUCTURE OF THE BU

The Domestic Wireline Business Unit operates on a national level as the consolidated market leader in wireline telephone and data services and call centers, for final customers and other operators. On an international level, Domestic Wireline develops fiber optic networks for wholesale customers, mainly in Europe and Latin America.



At the end of the year, a new organizational structure was implemented, as follows:



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The new organizational structure aims to:

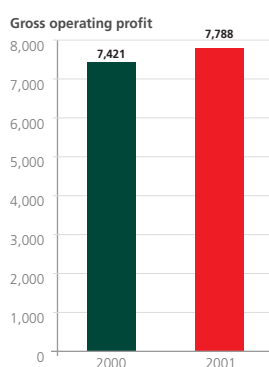
- Shift the focus from the product to the customer
- Accelerate the decision-making process
- Increase efficiency
- Increase the integration and sharing of information
- Streamline the chain of control with the aim of improving time to market

■ MAJOR EVENTS/SCOPE OF CONSOLIDATION

No significant corporate events took place, apart from the companies that were set up for the "Pan European Backbone", "Mediterranean Nautilus" and "Latin American Nautilus" projects. The relative companies were established between the end of 2000 and the beginning of 2001 and were consolidated line-by-line in the 2001 financial statements.

■ ECONOMIC AND FINANCIAL DATA

The following table shows the key results in 2001, compared to those in 2000.



(millions of euro)	2001 (A)	2000 (B)	Change (A-B)	
			Amount	%
Sales and service revenues	17,291	17,514	(223)	(1.3)
Gross operating profit	7,788	7,421	367	4.9
% on revenues	45.0%	42.4%		
Operating income	4,379	3,915	464	11.8
% on revenues	25.3%	22.4%		
Investments:				
- industrial	2,835	2,746	89	3.2
- goodwill				
Employees at year-end (number)	58,406	62,782	(4,376)	(7.0)

Almost all of the results refer to the Domestic Wireline function of Telecom Italia and take into account the exchanges with other functions of Telecom Italia S.p.A.. For comments on the trend of operations, please refer to the section "Economic and financial performance of Telecom Italia S.p.A.".

2001 was marked by fierce competition, based on the reduction of prices in the "Voice traffic" business area and in the market of Internet-access (ISP). In this context, the activity of Domestic Wireline was characterized by the following:

- the consolidation of its market leadership in the business areas of access, data services, web services and wholesale
- an increase in efficiency by means of strict control over costs and investments
- the return to traditional services, with the successful introduction of flat-rate offers for residential customers and customized offers for business customers
- a considerable increase in "transported" traffic on behalf of other operators and on-line traffic
- the reduction of rates for national, local and long-distance traffic, and outgoing international traffic, which was partly compensated by an increase in basic subscription charges

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■ INFORMATION ON OPERATIONS

The following table shows the operating highlights in 2001, compared to those in 2000:

Operating data	2001	2000
Fixed network connections (in thousands)	27,353	27,153
- of which ISDN	5,403	4,584
Annual increase in minutes of traffic on the fixed network (%)	30.7	27.6
- national traffic	31.3	28.1
- international traffic	16.9	11.5
- outgoing	11.4	13.2
- incoming	12.6	(0.1)
- in transit	39.3	52.9

■ Telephony

During 2001 numerous commercial plans were offered for residential and business phone services, including:

Residential telephone services	Teleconomy voce	Subscription with 3,240,000 customers at the year end (+97% compared to the end of 2000)
	BBB/Teleconomy ADSL	Broadband subscription in bundling with the Teleconomy plan
	Sirio 187	First telephone in the world able to handle SMS
Business telephone services	Teleconomy24 aziende	Subscription with approx. 840,000 customers at year-end
	Teleconomy ADSL	Broadband subscription in bundling with the Teleconomy offer
	ADSL Smart	Broadband subscription for small and medium-size companies

With reference to Public Telephone Service installations, terminals using ISDN technology numbered 70,000 units at the year end (+54% compared to the end of 2000).

■ Data transmission

During the year, the commercial range of data packages was expanded by products such as:

"Hyperway"	A private national virtual network based on an IP protocol and a virtual LAN network for metropolitan areas, in which all services and applications are available (voice, data and video)
"NetVantage"	E-business solutions distributed through Internet Data Centers (IDC) to handle virtual communities' processes on-line
"Full Business Government"	E-business solutions distributed through IDC for the local Public Administration
"Full Business Banking"	E-business solutions distributed through IDC for the financial sector
"Web-Kit"	E-business solutions distributed through IDC for ADSL connectivity

■ Wholesale national

During the year, Telecom Italia consolidated its activities in the Wholesale national area with an increase in interconnection traffic of 126.4% (from 38.8 to 87.9 billion minutes) compared to 2000.

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During the year, the range of rate plans was extended by products such as:

Permanent virtual channel	Allows Internet Service Providers and other operators to offer final customers data services through broadband access technologies on two-pair copper or fiber optic cables
Dark optic fiber	Supply without installation for using the Telecom Italia network, ensuring a potentially unlimited carrying capacity given the growing demand for broadband services from the market

■ Wholesale international

As far as International Wholesale is concerned, the year was characterized by a growth in demand, particularly with regard to Internet and data services, with an increase in the volume of traffic by 18.7% (from 5.8 to 6.8 billion minutes) compared to 2000.

■ National network

The national network in statistics at December 31, 2001 is as follows:

Exchange areas	about 10,400, served by 11,551 Line Stages (LS)
Switching areas	615, served by 653 Local Group Stages (LGS)
Gateway areas	33 served by 80 Transit Group Stages (TGS)
Copper access network	104.3 million of kilometers-pair
Fiber optic access network	417,000 kilometers-line
Fiber optic carrier network	2.8 million kilometers-line
Direct dialing circuits	3.9 million
Network for direct digital circuits	641,000 access points with speeds up to 2 Mbit/s
Network for direct analog circuits	166,200 access points
Frame Relay accesses	about 52,000 gates at 2Mbit/s

As far as the national network is concerned, during 2001 infrastructures and operation systems were improved, partly as a result of the growth in the activities of other providers on the Italian market. The following activities are worthy of note:

Dialing without the "zero"	Activation of dialing without the first "0" when calling mobile phone numbers
Call return	Activation of the call return service which provides customers with information about the last call received, including the number, date and time of the call, and with the option of re-calling the number automatically
National switching	Completion of the digitization of national switching, by transferring customers previously registered with analog exchanges to digital exchanges
Arianna	Continuation of the development of "Arianna", a ring network which uses the latest generation of SDH and DWDM (Dense Wavelength Division Multiplexing) technologies. These act as a basis for the new OCN (Optical Carrier Network) on which flows are carried requiring high quality and availability
SDH	The fiber optic network has been increased with 25 new DWDM systems, integrated by OADM (Optical Add Drop Multiplexer) systems
CNM (Customer Network Manager)	Module for the operation of private virtual networks on the WEB platform, which became operational during the year
T-Bone	Start of the project, with work that began on the eastern backbone of the fiber optic ring linking Milan and Palermo, consisting of 2,300 km of cable with 96 optic fibers and the laying of two submarine links under the Straits of Messina
Radio links	Installations with a higher capacity were created to cope with the growth in the demand of mobile operators

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■ International network

The international network in statistics at December 31, 2001 is as follows:

Connected countries	237
- of which direct dialing	229
- of which ISDN	53
Switching exchanges	8 (4 in Milan, 3 in Rome and 1 in Palermo)
Extent of European backbone	36,600 kilometers-line
Bands	2 rings of 60,000 Mbit/s

As far as the international network is concerned, infrastructures and operating systems were developed in geographical areas with a strong growth in demand for capacity, which are of strategic importance to the subsidiaries and affiliates located in those areas. Highlights during the year include:

Pan European Backbone	Activation of the pan-European regional network, which connects nine countries (Austria, Belgium, France, Germany, Italy, Holland, Spain, Switzerland and Great Britain) with high-speed optical fibers and a ring structure which will guarantee the self-protection of traffic should a fault occur on any given section. 100%-owned subsidiaries have been set up by Telecom Italia in each of the countries linked by the network; they own the installations within the national borders and offer services mainly to Telecom Italia, to enable it to sell cross-border services to the wholesale clientele.
LAN (Latin American Nautilus)	Activation of the initial configuration of the LAN ring network, which connects eight junctions in Latin America, including Rio de Janeiro, São Paulo, Buenos Aires and Santiago with the junction in Miami
Mediterranean Nautilus	Work continued on the "Mediterranean Nautilus" project, the submarine optical fiber ring network which will connect Italy, Greece, Turkey, Israel and Egypt, with the collaboration of the subsidiaries Med-1 (installation) and Med Nautilus (operations)

■ SUBSIDIARIES



Saritel S.p.A.

Held by: Telecom Italia 100.0%.

The company operates as the "Internet factory" of the Telecom Italia Group. It handles the management of basic services and platforms, the integration of systems and the development of applications. The services are mainly offered to Domestic Wireline, TIM, Seat Pagine Gialle, Retevision Movil in Spain and IS Tim in Turkey.

The table shows the key economic highlights:

	2001 (millions of euro)	2000 (millions of euro)	Change (%)
Sales and service revenues	186	142	31.0
Gross operating profit	39	21	85.7
Operating income	17	12	41.7

Activities during the year:

- development of the range of dedicated products for the Telecom Italia Group

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Atesia S.p.A.

Held by: Telecom Italia 100.0%.

The company operates in the sector of telemarketing and market research.

The table shows the key economic highlights:

	2001 (millions of euro)	2000 (millions of euro)	Change (%)
Sales and service revenues	83	77	7.8
Gross operating profit	40	39	2.6
Operating income	36	34	5.9

Activities during the year:

- development of the services performed on behalf of Telecom Italia and TIM



PathNet S.p.A.

Held by: Telecom Italia 99.9%, Sodalia 0.01%.

The company is responsible for the development and management of the single Public Administration network.

The table shows the key economic highlights:

	2001 (millions of euro)	2000 (millions of euro)	Change (%)
Sales and service revenues	79	28	182.1
Gross operating profit	3	1	200.0
Operating income	1	(0.1)	°

Activities during the year:

- stipulation of important new contracts with the Public Administrations (56 contracts at year-end)

TMI group - Telemedia International Italia

Held by: Telecom Italia 100.0%.

The group offers international voice and data services on fixed networks.

The table shows the key economic highlights:

	2001 (millions of euro)	2000 (millions of euro)	Change (%)
Sales and service revenues	91	136	(33.1)
Gross operating profit	(53)	(55)	3.6
Operating income	(126)	(88)	(43.2)

Activities during the year:

- start of the reorganization of the group's operations with the sale of TMI Hong Kong

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Latin American Nautilus group

Held by: Telecom Italia 70.0%, Entel Bolivia 10.0%, Entel Chile 10.0%, Telecom Arg. 10.0%

The group ensures the transport of traffic and the supply of transmission capacity for wholesale customers in Latin America.

The table shows the key economic highlights:

	2001 (millions of euro)	2000 (millions of euro)	Change (%)
Sales and service revenues	3	-	°
Gross operating profit	(26)	(0.1)	°
Operating income	(27)	(0.4)	°

Activities during the year:

- activation of the initial configuration of the network
- re-negotiation with Global Crossing of the conditions for supplying transmission capacity in Latin America

Mediterranean Nautilus group

Held by: Telecom Italia 62.51%, SIN 7.49%

The group ensures the transport of traffic and the supply of transmission capacity for wholesale customers in the Eastern Mediterranean.

The table shows the key economic highlights:

	2001 (millions of euro)	2001 (millions of US\$)	2000 (millions of US\$)	Change in local currency (%)
Sales and service revenues	54	48	56	(14.2)
Gross operating profit	20	18	28	(35.7)
Operating income	(20)	(17)	21	°

Activities during the year:

- completion of the northern section (between Catania, Chania-Crete, Haifa and Tel Aviv) and the southern section (between Tel Aviv and Catania) of the network, which has been available for traffic since December

Med-1 group

Held by: Telecom Italia 23.17%, SIN 27.83%

The group is responsible for installing land-based and submarine networks in the area of the Middle East.

The table shows the key economic highlights:

	2001 (millions of euro)	2001 (millions of US\$)	2000 (millions of US\$)	Change in local currency (%)
Sales and service revenues	13	12	6	100.0
Gross operating profit	2	1	(1)	°
Operating income	(5)	(5)	(6)	16.7

Activities during the year:

- cooperation in the laying of the fiber optic submarine Med Nautilus network

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Pan European Backbone

Held by: Telecom Italia 100.0%.

A group of companies which is responsible for the transport of traffic and the supply of transmission capacity for wholesale customers in Europe.

The table shows the key economic highlights:

	2001 (millions of euro)	2000 (millions of euro)	Change (%)
Sales and service revenues	19	-	°
Gross operating profit	13	(1)	°
Operating income	7	(1)	°

Activities during the year:

- completion of the junctions for Milan, Zurich, Frankfurt, Amsterdam, Brussels, London and Paris and the start-up of commercial activities

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MOBILE SERVICES



- ▶ **Growth of revenues and profit margins**
- ▶ **Extension of the range of products and services offered**
- ▶ **Diversification of rate plans**
- ▶ **Expansion in strategic foreign markets**

■ THE STRUCTURE OF THE BU

The Mobile Services Business Unit (TIM group) operates in the sector of national and international mobile telecommunications. Its international presence is concentrated in the Mediterranean Basin and in Latin America.

The Business Unit is organized as follows:



■ MAJOR EVENTS/SCOPE OF CONSOLIDATION

Key events in 2001 include:

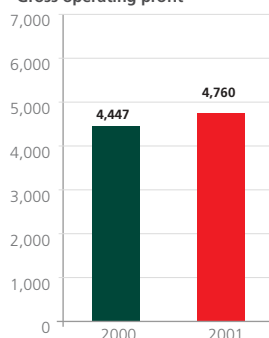
- consolidation of the financial statements of Corporacion Digital and the Maxitel group, acquired at the end of 2000
- setting up the company Tim Brasil, sub-holding company for the subsidiaries TIM Celular Centro Sul, TIM Sao Paulo, TIM Rio Norte, set up during the first months of the year
- contribution of the investment in Bitel (majority shareholder of Tele Nordeste Celular and Tele Celular Sul) to TIM Brasil by TIM International N.V.
- merger by incorporation of TIM International B.V. in SMH N.V. and the simultaneous change of the name of the latter to TIM International N.V.

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ECONOMIC AND FINANCIAL DATA

The following table shows the key results in 2001, compared to the results in 2000.

Gross operating profit



(millions of euro)	2001 (A)	2000 (B)	Change (A-B)	
			Amount	%
Sales and service revenues	10,250	9,418	832	8.8
Gross operating profit	4,760	4,447	313	7.0
% on Revenues	46.4%	47.2%		
Operating income	3,136	2,988	148	5.0
% on Revenues	30.6%	31.7%		
Investments:				
. industrial	3,151	4,206	(1,055)	(25.1)
. goodwill	31	899	(868)	°
Employees at year-end (number)	16,721	15,257	1,464	9.6

Compared to 2000, the growth in sales and service revenues, shown gross of the amounts due to third-party telecommunications operators, is 8.8% and can be attributed to the positive trend in the revenues of TIM S.p.A.. The percentage increase of the gross operating margin is lower than the growth of revenues as a result of the start-up of international companies.

For a description of operations, please refer to the comment on the group holding company TIM and the individual consolidated companies.



TELECOM ITALIA MOBILE S.P.A.

Held by: Telecom Italia 54.82%, Softe 0.14%.

The table shows the key economic highlights:

	2001 (millions of euro)	2000 (millions of euro)	Change (%)
Sales and service revenues	8,357	7,929	5.4
Gross operating profit	4,225	3,845	9.9
Operating income	3,231	2,862	12.9

The growth of revenues can be attributed to a further expansion of traffic (+7.6% in terms of revenues, +13.6% in terms of minutes). Compared to 2000, there was an increase in revenues from value-added services of approximately 56.5%, especially as a result of the spread of Internet services (more than 140%) and outgoing SMS (approximately 35%). The gross operating profit benefited from a reduction in outside costs. TIM's net income (equal to euro 1,907 million) reflects adjustments to the investments in the international segment, which involved an extraordinary writedown of the subsidiary TIM International N.V. of euro 532 million, before taxes.

In addition, important investments made during the year include:

- development of the GSM network, both for the development of the radio access network and the backbone network;
- completion of the infrastructures for the launch of data services (WAP, GPRS);
- continuation of work on the development of UMTS, laying the foundations for integrated voice, data and multimedia services for access networks (radio stations and control junctions).

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During the year, TIM confirmed its leadership on a domestic market marked by fierce competition. The following objectives were pursued:

- new rate packages proposing innovative products
- further diversification in rate plans
- customer care, through the strengthening of CRM structures
- effectiveness and promptness in communication (both advertising and financial)
- stepped-up productive efficiency
- active participation in the main standardization bodies worldwide (3GPP, CEPT/ERC Committees, GSM Association, UMTS Forum)

The following table shows the key operating highlights, compared to 2000, and the main activities carried out by each sector:

TIM - Operating data	2001	2000
TIM lines in Italy (thousands)	23,946	21,601
Annual increase of mobile traffic in minutes (%)	13.6	24.6
GSM penetration in Italy (% population)	99.7	99.6
E-TACS penetration in Italy (% population)	98.0	98.0

During 2001, TIM reported significant progress in the development of SMS traffic, the creation of innovative services and the enhancement of offers with initiatives such as:

"LoSai di TIM"	Free service letting GSM customers know who has called while the telephone is switched off or out of range
FreeSMS	Package offering an automatic charging mechanism based on the number of SMS sent
CartAmici/ CartAuguri	Commercial package with special seasonal rates
Last Minute di TIM	Commercial package offering products and services that can be used for a limited time at very low unit costs
Autoricarica	Possibility of increasing the frequency with which bonuses are credited
GPRS	All TIM lines are also equipped to handle GPRS traffic, of fundamental advantage to the professional market, which acknowledges TIM as the only provider able to guarantee this service.

■ SUBSIDIARIES

■ EUROPE

Stet Hellas group

Held by: Tim International 63.95%.

The Group operates the GSM service in Greece.

The table shows the main economic and operating data:

	2001 (millions of euro)	2000 (millions of euro)	Change (%)
Sales and service revenues	523	526	(0.6)
Gross operating profit	188	156	20.5
Operating income	89	76	17.1
	2001	2000	
Number of lines at year-end (millions)	2	1.6	
Market share	27%	28%	



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Activities during the year:

- Acquisition in the month of July of a UMTS license for Greek drachmas 50 billion (euro 145 million) and a DCS 1800 license for Greek drachmas 9 billion (euro 26 million). The acquisition of the new licenses was partly financed by a share capital increase of Greek drachmas 30 billion (euro 87 million). This capital increase, concluded in October, was entirely subscribed and raised the stake owned by TIM International from 59.29% to 63.95%.



■ LATIN AMERICA - Brazil

Tele Nordeste Celular Participações group

Held by: Bitel 19.38%.

The group operates mobile network services in the northeast of Brazil.

The table shows the main economic and operating data:

	2001 (millions of euro)	2001 (millions of reais)	2000 (millions of reais)	Change in local currency (%)
Sales and service revenues	416	876	890	(1.6)
Gross operating profit	198	416	428	(2.8)
Operating income	102	215	199	8.0
		2001	2000	
Number of lines at year-end (millions)		1.8	1.5	
Market share		65%	65%	

Activities during the year:

- strategic repositioning in the most profitable customer segments
- launch of the TIM Business brand on the market
- international roaming offered to the Business clientele
- rationalization of the distribution network



Tele Celular Sul Participações group

Held by: Bitel 19.37%.

The group operates mobile network services in the south of Brazil.

The table shows the main economic and operating data:

	2001 (millions of euro)	2001 (millions of reais)	2000 (millions of reais)	Change in local currency (%)
Sales and service revenues	423	889	750	18.5
Gross operating profit	179	376	333	12.9
Operating income	88	185	125	48.0
		2001	2000	
Number of lines at year-end (millions)		1.6	1.4	
Market share		65.4%	75%	

Activities during the year:

- policy of rationalizing costs and optimizing investments
- new packages for the prepaid segment
- consolidation of its market position
- activities to promote customer retention and loyalty among high-consumption customers
- launch on the market of the trademark TIM Business

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Maxitel group

Held by: Bitel 58.70%, TIM International 37.97%.

The group handles mobile telephone services in Brazil in the areas of Bahia and Sergipe.

The table shows the main economic and operating data:

	2001 (millions of euro)	2001 (millions of reais)	2000 (millions of reais)	Change in local currency (%)
Sales and service revenues	277	582	484	20.2
Gross operating profit	86	181	83	118.1
Operating loss	(21)	(44)	(125)	64.8
		2001	2000	
Number of lines at year-end (millions)		1.2	1	
Market share		33%	33%	

Activities during the year:

- new packages offered for the postpaid segment
- strategies for acquiring high-profile customers
- stepping-up customer loyalty and retention programs

■ LATIN AMERICA - Perù

TIM Perù S.A.C.

Held by: TIM International 100.0%.

The company operates mobile telephone services.

The table shows the main economic and operating data:

	2001 (millions of euro)	2001 (millions of nuevo soles)	2000 (millions of nuevo soles)	Change in local currency (%)
Sales and service revenues	34	105	0	°
Gross operating loss	(55)	(173)	(37)	(367.6)
Operating loss	(76)	(238)	(62)	(283.9)
		2001	2000	
Number of lines at year-end (millions)		0.2	-	
Incremental market share		34%	-	

Activities during the year:

- launch of commercial service at the beginning of the year
- creation of more than 330 radio stations
- launch of business packages with new rate plans
- stipulation of 70 international roaming agreements



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■ LATIN AMERICA - Venezuela

Corporacion Digitel C.A.

Held by: TIM International 56.56%.

The company operates mobile telephone services.

The table shows the main economic and operating data:

	2001 (millions of euro)	2001 (billions of bolivares)	2000 (billions of bolivares)	Change in local currency (%)
Sales and service revenues	255	173	57	203.5
Gross operating profit (loss)	15	10	(23)	143.8
Operating loss	(32)	(21)	(40)	47.5
		2001	2000	
Number of lines at year-end (millions)		0.7	0.3	
Market share		18%	8%	

Activities during the year:

- revitalization of marketing activities
- development of distribution channels with the opening of corporate stores
- development of the network with 429 BTS in operation
- launch of the "Liber All" brand for subscriber customers
- promotional packages for the prepaid segment

■ AFFILIATED COMPANIES



■ EUROPE - Austria

Mobilkom Austria A. & Co KG - Limited Partnership

Held by: Autel 25.0%, Telekom Austria 75.0%.

The company operates mobile telephone services.

The table shows the main economic and operating data:

	2001 (millions of euro)	2000 (millions of euro)	Change (%)
Sales and service revenues	1,408	1,319	6.7
Gross operating profit	575	423	35.9
Operating income	278	201	38.3
	2001	2000	
Number of lines at year-end (millions)	2.8	2.8	
Market share	43%	45%	

Activities during the year:

- maintenance of leadership position on the domestic market
- development of new value-added services
- development of international activities with the acquisition of SI-Mobil

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■ EUROPE - Turkey

IS Tim Telekomunikasyon Hizmetleri A.S.

Held by: Tim International 49.00%.

The company operates mobile telephone services.

The table shows the main economic and operating data:

	2001 (millions of euro)	2001 (billions of Turkish lire)	2000 (billions of Turkish lire)	Change in local currency (%)
Sales and service revenues	46	58,753	°	°
Gross operating loss	(181)	(229,154)	°	°
Operating loss	(382)	(484,897)	°	°
		2001	2000	
Number of lines at year-end (millions)		0.5	°	
Incremental market share		24%	°	

Activities during the year:

- company established in September 2000
- launch of the “Aria” brand service in March 2001, only five months after being awarded the GSM license
- a simple, innovative rate plan
- extension of network penetration to important tourist resorts
- spread of points of sale nationwide



■ EUROPE - France

Bouygues Telecom S.A.

Held by: Tim International through BDT 10.78%.

The company operates mobile telephone services.

The table shows the main economic and operating data:

	2001 (millions of euro)	2000 (millions of euro)	Change (%)
Sales and service revenues	2,681	2,037	31.6
Gross operating profit	687	740	(7.2)
Operating income (loss)	53	(195)	°
	2001	2000	
Number of lines at year-end (millions)	6.4	5.2	
Market share	18%	18%	

- During the first few months of 2002, the Telecom Italia Group reached an agreement for the sale of the 19.61% holding in BDT held by TIM International. The overall equivalent amount of the transaction will be equal to euro 750 million

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INTERNET AND MEDIA

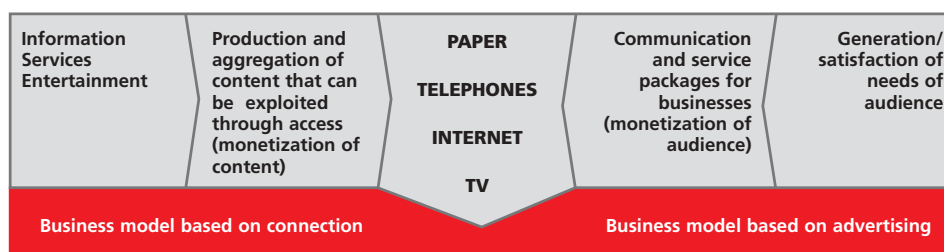


- ▶ **Growth of revenues**
- ▶ **Improvement in profit margins**
- ▶ **Change in the scope of consolidation**
- ▶ **New mission**

■ THE STRUCTURE OF THE BU

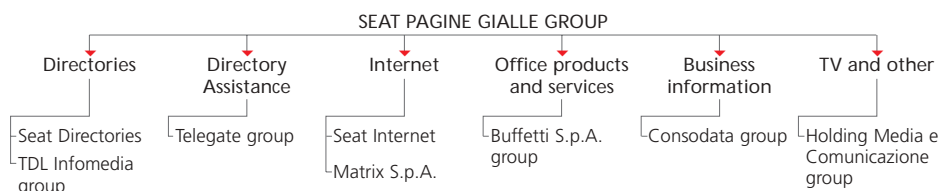
The Internet and Media Business Unit is responsible for the whole chain of value in the media sector. Its operations include telephone publishing and television and the BU is the national leader in the marketing of products and services for the office. Seat Pagine Gialle promotes the development of all Internet services for residential customers and for small and medium-size companies: access, portals and web services.

Within the framework of the new strategic guidelines, the mission of the BU includes the creation of a multi-platform media group which, using the mediums of paper, telephones, the Internet and television, will meet the needs of the public for information and entertainment, and the needs of businesses for communication and services.



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The Business Unit consists of the Seat Pagine Gialle group, which is organized as follows (the table shows the main consolidated companies/areas of consolidated operations):



■ MAJOR EVENTS/SCOPE OF CONSOLIDATION

In 2001 the scope of consolidation was extended to include numerous companies that have been acquired recently, including the French group Consodata (Business Information), the British telephone publishing company TDL Infomedia (Directories), the German company Telegate (Directory Assistance), and the television group Holding Media e Comunicazione, formerly Cecchi Gori Communications (TV). The details of the main transactions carried out during the year are described below:

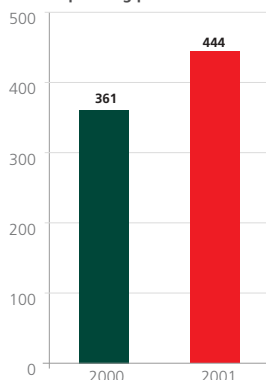
- Acquisition of a 64.532% investment (direct and indirect) in Telegate A.G. after acquiring Telegate Holding's remaining (48.63%) share capital
- Acquisition of the control of four Italian call centers by the company Giallo Voice (100%-owned by Seat Pagine Gialle)
- Exchange of 186 million Seat Pagine Gialle shares for a 100% stake in ISM by Huit II (subsidiary of Telecom Italia). ISM holds 33.3% of Matrix's capital through the subsidiary N.V.Vertico. After this transaction, the Telecom Italia Group holds control of Matrix with a 56.88% stake
- Acquisition of 54.5% of the French company Consodata, according to the terms of the agreement stipulated on July 31, 2000 between Seat Pagine Gialle and the founder shareholders of the same company, which operates in the sector of marketing information. The company is listed on the Nouveau Marché in Paris
- Conclusion in May of the takeover bid by Seat Pagine Gialle for the remaining shares of the Buffetti S.p.A. group not yet held
- Acquisition in June, following the share capital increase carried out in April, of 100% of the share capital of Cecchi Gori Communications (now Holding Media e Comunicazione)

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■ ECONOMIC AND FINANCIAL DATA

The table shows the key economic highlights for 2001, compared to those in 2000, on a comparable consolidation basis.

Gross operating profit



	2001 (A)	2000 (1)	2000 - with the same scope of consolidation (2) (B)	Change (A - B)	
(millions of euro)				Amount	%
Sales and service revenues	1,957	263	1,908	49	2.6
Gross operating profit (loss)	444	(35)	361	83	23.0
% on Revenues	22.7%	°	18.9%		
Operating income (loss)	31	(73)	(1)	32	°
% on Revenues	1.6%	°	°		
Investments:					
. industrial	175	34	251	(76)	(30.3)
. goodwill	203	-	n.d.		
Employees at year-end (number)	9,264	7,515	8,932	332	3.7

(1) Data refer only to Tin.it, with the exception of those pertaining to number of employees, which include the Seat Group.

(2) The data include the consolidated financial statements of the Seat Group, the operations of Tin.it from January 1, 2000 and companies recently acquired by the Seat Group.

Considering the same scope of consolidation, revenues increased by 2.6%, a satisfactory result given the economic slowdown which hit the European economy and, in particular, the advertising sector, where the Seat Pagine Gialle group generates a large proportion of its business. The main contributor to the growth was telephone publishing, which compensated the decline in Internet activities. The relative customers of Directories of Seat Pagine Gialle reached 670 thousand (+3.6% compared to the prior year), thanks partly to the boost from the launch and development of new products. The growth in the gross operating profit for the year (+23.0% with the same scope of consolidation) can be attributed to the policy of rationalizing costs and improving the profit margins of the telephone publishing business. The positive performance in these areas more than compensated the losses in Television. The operating income was euro 31 million, a significant increase compared to the operating loss of euro 1 million reported in the financial statements in 2000, on a comparable consolidation basis.

■ INFORMATION ON OPERATIONS

During the year, Seat Pagine Gialle strengthened its presence in the markets in which it operates, thanks to its portfolio of brands with a high degree of awareness. The operations of the Group were marked by:

- continuity between platforms and products, making it possible (now and in the future) to exploit the potential of synergies and integration between directories, telephones and the Internet on the one hand, and between the Internet and TV on the other
- control over a commercial network that is unique from the standpoint of coverage, the number and type of clientele, platform coverage (paper, telephone, Web and TV) and in terms of the availability of a physical network through which to distribute products and services;
- greater cooperation with Telecom Italia Domestic Wireline for the sale of Internet ADSL connections (132,800 units at year-end compared to approximately 6,500 in the prior year).

For a description of operations during the year, please refer to the comments on the group holding company Seat Pagine Gialle and its main consolidated companies, presented below.

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■ SEAT PAGINE GIALLE S.P.A.

Held by: Telecom Italia 53.21%, Huit II 1.90%, Softe 0.13%, Saritel 0.02%.

The company operates in the sectors of telephone publishing and the Internet. The table shows the economic highlights for 2001, compared to those in 2000, on a comparable consolidation basis:

	2001 (millions of euro)	2000 (millions of euro)	Change (%)
Sales and service revenues	1,089	1,037	5.0
Gross operating profit	505	337	49.9
Operating income	285	130	119.2

Activities during the year:

Telephone publishing	Telephone directories	Use of a new print font (Nomina)
	Pagine Gialle (Yellow pages)	Use of a new graphics layout for Yellow Pages (WhiteSpotLight)
	PGOL	New search engine, synergies with Virgilio and Yahoo
	Pagine Bianche.it	New alphabetic on-line search
	PPG	Enhancement of content, main city routings
Internet	Dial up	Volume of traffic equal to approximately 13.3 billion minutes in 2001 (+14% compared to 2000)
	"Prodotti free"	Number of active users equal to 1.3 million at the end of 2001 (+13% compared to 2000)
	"Utenti Pay"	Average daily consumption equal to 31.7 minutes/day/user (+18% compared to 2000)
	Broadband Access	Number of active users equal to 132,800 at the end of 2001 (+2000% compared to 2000)



■ SUBSIDIARIES

Telegate group

Held by: Seat Pagine Gialle 100.0%.

The group operates in the sector of Directory Assistance, and is the second-largest operator in Germany after Deutsche Telekom.

The table shows the key economic highlights for 2001, compared to those in 2000, on a comparable consolidation basis:

	2001 (millions of euro)	2000 (millions of euro)	Change (%)
Sales and service revenues	135.0	130.1	3.8
Gross operating loss	(11.9)	(1.1)	°
Operating loss	(32.3)	(10.7)	(201.9)

Activities during the year:

- revision of the pricing model
- launch of new value-added telephone services (distribution of various kinds of information other than simple directory assistance)

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TDL Infomedia group

Held by: Seat Pagine Gialle 99.60%.

The group operates in the telephone publishing sector, and is the second-largest publisher of directories in the United Kingdom.

The table shows the economic highlights for 2001, compared to those in 2000, on a comparable consolidation basis:

	2001 (millions of euro)	2000 (millions of euro)	Change (%)
Sales and service revenues	151.2	155.4	(2.7)
Gross operating profit	48.4	45.1	7.3
Operating income	19.1	20.0	(4.5)

Activities during the year:

- 173 local directories published and distributed compared to 170 in the prior year, representing 89% of revenues
- advertising on the Thomweb on-line directories
- business information services

MATRIX

Matrix S.p.A.

Held by: Finanziaria WEB 66.00%, NV Vertico 33.30%, Seat Pagine Gialle 0.70%.

The company operates in the Internet sector.

The table shows the key economic highlights for 2001, compared to those in 2000, on a comparable consolidation basis:

	2001 (millions of euro)	2000 (millions of euro)	Change (%)
Sales and service revenues	26.1	32.4	(19.4)
Gross operating loss	(38.6)	(16.4)	(135.4)
Operating loss	(39.8)	(20.4)	(95.1)

Activities during the year:

- strengthening of the position of the Virgilio portal, despite a marked slowdown in the whole sector (reach of 61.3%, more than 3,507 million annual page-views compared to 1,705 million in 2000)
- market share of 23% of the on-line advertising market for the Virgilio portal and the internal Active Advertising agency.



Buffetti S.p.A. group

Held by: Seat Pagine Gialle 100.0%.

The group operates in the sector of products and services for the office.

The table shows the key economic highlights for 2001, compared to those in 2000, on a comparable consolidation basis:

	2001 (millions of euro)	2000 (millions of euro)	Change (%)
Sales and service revenues	238.7	228.8	4.3
Gross operating profit	11.4	14.0	(18.6)
Operating income	4.4	8.9	(50.6)

Activities during the year:

- completion of the reorganization of activities associated with direct sales to businesses and consumer products, created with the aim of specializing the sales networks and fully exploiting the synergies existing within the Group

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- preparations for the start-up of the new print-on-demand service (customized printing on demand), including the signing of an agreement with a qualified partner to create a joint venture.



Consodata group

Held by: Seat Pagine Gialle 90.74%.

The group operates in the sector of business information in the French market.

The table shows the economic highlights for 2001, compared to those in 2000, on a comparable consolidation basis:

	2001 (millions of euro)	2000 (millions of euro)	Change (%)
Sales and service revenues	83.2	83.8	(0.7)
Gross operating profit	3.4	8.9	(61.8)
Operating loss	(14.5)	(12.0)	(20.8)

Activities during the year:

- application in the field of direct and information marketing, through the development of one-to-one services (collecting data on models of household consumption), data management services (processing and data analysis) and market intelligence (enhancement and sale of the same information).

Holding Media e Comunicazione group

Held by: Seat Pagine Gialle 100.0%.

The group operates in the sector of radio and television broadcasting.

The table shows the key economic highlights for 2001, compared to those in 2000, on a comparable consolidation basis:

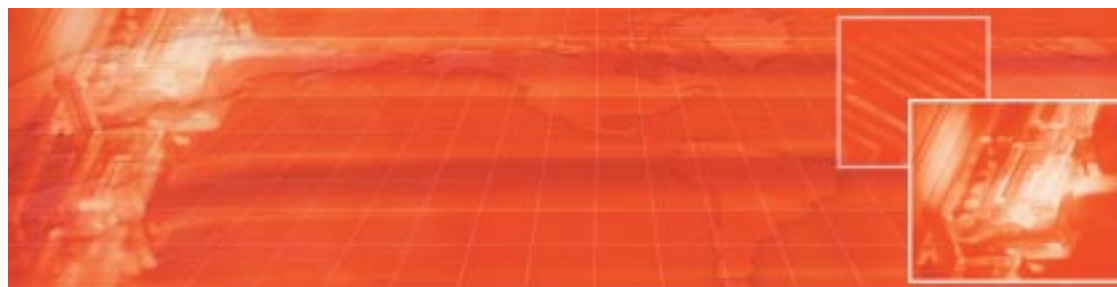
	2001 (millions of euro)	2000 (millions of euro)	Change (%)
Sales and service revenues	85.5	81.8	4.5
Gross operating loss	(74.8)	(29.9)	(150.2)
Operating loss	(98.6)	(38.9)	(153.5)

Activities during the year:

- joint venture with the Viacom Group for broadcasting the MTV Italia channel (on air since May 2001) on television frequencies
- launch of the La7 brand (June 2001)
- revision of the initial project to create a general-type TV channel on La 7, with high costs and considerable financial risk; outlining and definition of a project for a television channel with a high information content (on air since March 2002)
- increase of geographical penetration and the percentage of the population served by the TV signal distribution network

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INTERNATIONAL OPERATIONS

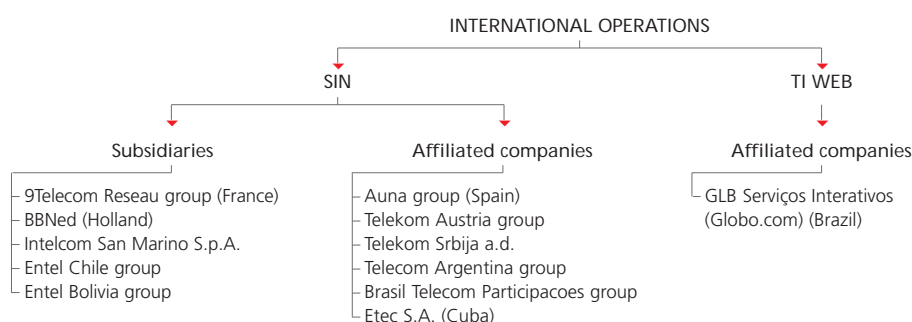


- ▶ **Strengthening of the Group's international presence in business segments with good growth potential**
- ▶ **Optimization of the portfolio of business activities**

■ THE STRUCTURE OF THE BU

The International Operations Business Unit operates in the sector of fixed and integrated fixed-mobile telecommunications. Its operations are mainly concentrated in Europe and Latin America.

The Business Unit is organized into companies – coordinated by Telecom Italia's "International Operations" business segment – for the most part controlled by the holding company Stet International Netherlands.



■ MAJOR EVENTS/SCOPE OF CONSOLIDATION

The following transactions took place during the year 2001:

- in France, Jet Multimedia (9Telecom Reseau group) acquired a 100% stake in Victoire Multimedia from the LVMH group.
- in Spain, the shareholder base changed in AUNA (the holding company created in December 2000) after which the Telecom Italia Group holds 26.89% of the share capital. In December, an agreement was reached between the Telecom Italia Group and Endesa, Union Fenosa and Santander Central Hispano for the disposal of the investment in the company.

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- in Chile new stakes were acquired in the Entel Chile group, bringing the total to 54.76%.
- during the first quarter, 30% of Mediterranean Nautilus S.A. (which also includes Elettra) was sold to F.T.T. Investment, a company belonging to the Israeli group Fishman.

Compared to the prior year, the transactions carried out in 2001 led to the inclusion in the scope of consolidation of the Entel Chile group and the Jet Multimedia group, whose balance sheets only were consolidated in 2000, and the exclusion of the Nortel Inversora group -Telecom Argentina. At December 31, 2001 the latter was consolidated using the equity method.

■ ECONOMIC AND FINANCIAL DATA

The table shows the key results for 2001, compared to those in 2000.

Gross operating profit (loss)	(millions of euro)	2001 (A)	2000 (*) (B)	Change (A-B)	
				Amount	%
	Sales and service revenues	1,879	505	1,374	272.1
	Gross operating profit (loss)	347	(3)	350	°
	% on Revenues	18.5%	-		
	Operating loss	(268)	(135)	(133)	(98.5)
	% on Revenues	-	-		
	Investments:				
	. industrial	517	204	313	153.4
	. goodwill	773	780	(7)	(0.9)
	Employees at year-end (number)	7,307	2,572	4,735	184.1

(*) Restated to give effect to the consolidation of Nortel Inversora group using the equity method instead of the proportional consolidation method.

The above data take into account the exchanges between the International Operations function and the other functions of Telecom Italia S.p.A..

In 2001, the revenues and the gross operating profit of the Business Unit increased following a larger contribution by 9Telecom and the inclusion in the scope of consolidation of the Entel Chile and Jet Multimedia groups. On the other hand, there was a significant increase in the operating loss compared to 2000 which can mainly be attributed to higher amortization of goodwill, and the increase in provisions for adjustments relating to the Entel Chile and 9Telecom groups.

■ INFORMATION ON OPERATIONS

In 2001, the development and management of the foreign investment portfolio was aimed at maintaining the presence of the Telecom Italia Group in strategic markets (Latin America and Europe) and in business segments with high growth potential.

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■ SUBSIDIARIES

■ EUROPE - France

9Telecom Réseau group

Held by: SIN 97.34%, T.M.I. Telemedia Int. 0.04%.

The group operates in the sectors of wireline telephone services, voice services, data and Internet services. It also operates in the sector of traditional hosting in France.

The table shows the key economic and operating highlights:

	2001 (millions of euro)	2000 (millions of euro)	Change (%)
Sales and service revenues	277	96	188.5
Gross operating loss	(129)	(151)	14.6
Operating loss	(296)	(175)	(69.1)
	2001	2000	
Voice customers at year-end (thousands)	672	360	
Internet customers at year-end (thousands)	114	45	

Activities during the year:

- Internet-access operations of Magéos-Explorer transferred to 9Telecom
- Magéos-Explorer's focus on value-added services in the Internet sector

■ EUROPE - Holland

BBNed group

Held by: SIN 96.17%.

The group operates in the Dutch market of broadband (XDSL) local access services for ISP and business customers.

The table shows the key economic and operating highlights:

	2001 (millions of euro)	2000 (millions of euro)	Change (%)
Sales and service revenues	0.6	-	°
Gross operating loss	(16)	(2)	°
Operating loss	(18)	(2)	°
	2001	2000	
Number of ADSL lines at year-end	462	-	

Activities during the year:

- concentration of investments on the development of the connection network to the backbone

■ EUROPE - Republic of San Marino

Intelcom San Marino S.p.A.

Held by: SIN 70.00%.

The company owns the monopoly for international telephone services in the Republic of San Marino. In addition, it offers value-added services associated with the sale of international connections, as well as data-transmission, hosting and housing and Internet-access services.



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The table shows the key economic and operating highlights:

	2001 (millions of euro)	2000 (millions of euro)	Change (%)
Sales and service revenues	41	57	(28.1)
Gross operating profit	2	4	(50.0)
Operating income	1	2	(50.0)
	2001	2000	
Volume of traffic handled (millions of minutes)	304	230	
Internet customers at year-end (thousands)	4.6	3.6	

Activities during the year:

- agreements with new customers that are manufacturers of prepaid cards (the company's most important sector of activity)

■ LATIN AMERICA - Chile

Entel Chile group

Held by: SIN 54,76%.

The group operates in the sectors of fixed and mobile telephone services, data-transmission and Internet-access services.

The table shows the key economic and operating highlights:

	2001 (millions of euro)	2001 (billions of pesos)	2000 (billions of pesos)	Change in local currency (%)
Sales and service revenues	1,251	710	523	35.8
Gross operating profit	374	212	165	28.5
Operating income	128	72	64	12.5
		2001	2000	
Number of fixed lines at year-end (thousands)		95	85	
N. of mobile customers at year-end (thousands)		1,936	1,274	
Internet customers at year-end (thousands)		326	234	

Activities during the year:

- consolidation of its position as an integrated provider of telecommunications services
- leadership position in the mobile phone market achieved by Entel PCS (a subsidiary and owner of the most important GSM network in Latin America)
- acquisition of three WLL licenses to provide fast Internet-access services and fixed telephone services in Chile and abroad



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■ LATIN AMERICA - Bolivia

Entel Bolivia group

Held by: SIN-ICH-ETI 50.00%.

The group operates in the sectors of wireline and mobile telephone services, Internet, data transmission, telex and telegraphy services.

The table shows the economic and operating highlights for 2001, compared to those in 2000:

	2001 (millions of euro)	2001 (millions of bolivianos)	2000 (millions of bolivianos)	Change in local currency (%)
Sales and service revenues	220	1,320	1,322	(0.2)
Gross operating profit	91	545	554	(1.6)
Operating income	15	91	141	(35.5)
		2001	2000	
Number of fixed lines at year-end (thousands)		53	40	
N. of mobile customers at year-end (thousands)		368	261	
Internet customers at year-end (thousands)		12	12	

Activities during the year:

- GSM technology introduced in Bolivia
- consolidation of its leadership position in the business and corporate clientele services segments
- complete deregulation of the TLC market, introduction of carrier selection and local access, previously in the exclusive hands of cooperatives

■ AFFILIATED COMPANIES

■ EUROPE - Spain

Auna group

Held by: SIN 22.77%, Tim International 3.81%, Multimedia Cable 0.31%.

The group operates in the sectors of fixed and mobile telephone services, data-transmission and Internet-access services.

The table shows the key economic and operating highlights:

	2001 (millions of euro)	2000 (millions of euro)
Sales and service revenues	2,333	585
Gross operating profit	174	(52)
Operating loss	(524)	(259)
	2001	2000
Active fixed indirect telephone customers at year-end (thousands)	1,287	1,084
Active fixed direct telephone customers at year-end (thousands)	228	90
Number of mobile lines at year-end (thousands)	5,225	3,719
Internet customers at year-end (thousands)	1,225	888

NB - The data for 2001 are not comparable with those of the prior year on account of the reorganization that took place in 2000.

Activities during the year:

- position strengthened as Spain's second-largest integrated telephone operator in Spain
- 40% market share reached by subsidiary Eresmas for Internet portals and ISPs

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- investments continued in the mobile market for the development of GPRS and UMTS networks

In December, an agreement was reached between the Telecom Italia Group and Endesa, Union Fenosa and Santander Central Hispano for the sale of the 26.89% stake owned by the Telecom Italia Group. The agreement, which became official in January and is subject to normal regulatory approvals by the Regulator, will make it possible to generate net proceeds of euro 1.85 billion.

Telekom Austria

■ EUROPE - Austria

Telekom Austria group

Held by: SIN 29.78%.

The group operates in the sectors of wireline and mobile telephone services, data-transmission and Internet-access services.

The table shows the key economic and operating highlights:

	2001 (millions of euro)	2000 (millions of euro)	Change (%)
Sales and service revenues	3,943	3,897	1.2
Gross operating profit	1,488	1,087	36.9
Operating income (loss)	326	(5)	°
	2001	2000	
Number of fixed lines at year-end (thousands)	3,166	3,269	
Number of mobile lines at year-end (thousands)	2,850	2,804	
Internet customers at year-end (thousands)	656	293	

Activities during the year:

- restructuring of human resources with a cutback of approximately 2,700 persons
- introduction of a new, more customer-oriented organizational model
- continued international expansion in the mobile segment
- launching of the new portal for the development of new services and applications



■ EUROPE - Serbia

Telekom Srbija a.d.

Held by: SIN 29.00%.

The company operates in the sector of fixed telephone services, data services and mobile telephone services.

The table shows the key economic and operating highlights:

	2001 (millions of euro)	2001 (millions of dinars)	2000 (millions of dinars)	Change in local currency (%)
Sales and service revenues	438	26,152	21,819	19.9
Gross operating profit	161	9,592	9,240	3.8
Operating income	49	2,910	3,836	(24.1)
		2001	2000	
Number of fixed lines at year-end (thousands)		2,264	2,206	
N. of mobile lines at year-end (thousands)		821	433	

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Activities during the year:

- two rate increases carried out to compensate for the devaluation of the dinar and inflation in 2000
- aims of operational repositioning and restoring economic and financial equilibrium of the company upheld



■ LATIN AMERICA - Argentina

Telecom Argentina group

Held by: Telecom Italia and SIN through Nortel Inversora 13.97%.

The company operates in the sector of fixed and mobile telephone services, data-transmission and Internet-access services.

The table shows the key economic and operating highlights:

	2001 (millions of euro)	2001 (millions of pesos)	2000 (millions of pesos)	Change in local currency (%)
Sales and service revenues	3,558	3,188	3,362	(5.2)
Gross operating profit	1,904	1,705	1,661	2.6
Operating income	636	570	691	(17.5)
		2001	2000	
Number of fixed lines at year-end (thousands)		3,584	3,575	
N. of mobile lines at year-end (thousands)		2,136	2,058	
Internet customers at year-end (thousands)		247	250	

Activities during the year:

- implementation of radical process to optimize costs and investments
- market leadership position achieved in ADSL access packages and role of market leader in the mobile segment upheld
- plan approved to merge Telecom Internet and Telecom Argentina by incorporation

■ LATIN AMERICA - Brazil

Brasil Telecom Participações S.A. group

Held by: SIN through Solpart 7.28%.

The group operates in the sector of fixed local and long-distance telephone services.

The table shows the economic and operating highlights for 2001, compared to those in 2000:

	2001 (millions of euro)	2001 (millions of reais)	2000 (millions of reais)
Sales and service revenues	3,074	6,464	4,732
Gross operating profit	1,633	3,434	2,664
Operating income	571	1,201	869
		2001	2000
Number of fixed lines at year-end (thousands)		8,638	7,446

NB - The data for 2001 are not comparable with those of the prior year on account of the reorganization that took place in 2000.

Activities during the year:

- formation of the company BrTurbo with the aim of developing activities associated with access (narrow band and broadband) and the relevant value-added services
- acquisition of a 19.9% stake in VANT with the aim of developing data traffic approved by the Board of Directors of Brasil Telecom



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■ LATIN AMERICA - Brazil

GLB Serviços Interativos S.A.

Held by: TI Web 28.57%.

The company operates in the Internet sector. It owns the "Globo.com" brand.

The table shows the key economic and operating highlights:

	2001 (millions of euro)	2001 (millions of reais)	2000 (millions of reais)	Change in local currency (%)
Sales and service revenues	7	14	12	16.7
Gross operating profit	(73)	(150)	(109)	(37.6)
Operating income	(75)	(157)	(112)	(40.2)
		2001	2000	
Internet customers at year-end (thousands)		11.7	11.7	

Activities during the year:

- investments made with the aim of improving the quality of the portal and its ranking as one of the most visited portals (in 3rd place at end December 2001)



■ LATIN AMERICA - Cuba

Etec S.A.

Held by: SIN 29.29%.

The company operates in the sector of national and international fixed telephone services and Internet services.

The table shows the key economic and operating highlights:

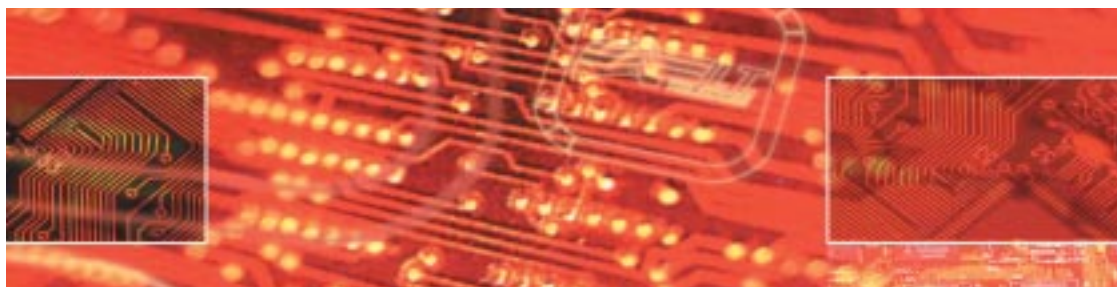
	2001 (millions of euro)	2001 (millions of US\$)	2000 (millions of US\$)	Change in local currency (%)
Sales and service revenues	314	281	293	(4.1)
Gross operating profit	206	185	202	(8.4)
Operating income	153	137	169	(18.9)
		2001	2000	
Number of fixed lines at year-end (thousands)		555	470	
Internet customers at year-end (thousands)		5	3	

Activities during the year:

- transit agreements reached for international traffic as an alternative to the severing of telephone communications with the United States
- Internet plans consolidated and a horizontal portal launched about Cuba

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INFORMATION TECHNOLOGY SERVICES

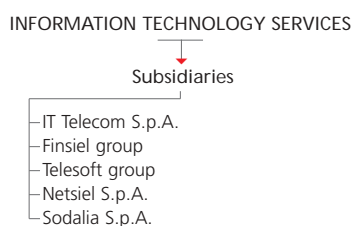


- ▶ **Industrial rationalization and corporate reorganization**
- ▶ **Improvement in profit margins**

■ THE STRUCTURE OF THE BU

The "Information Technology Services" (IT Services) Business Unit is responsible for the information technology activities of the Group and covers the whole chain of value of information services, while pursuing objectives to reposition its activities on higher value-added products.

The Business Unit, established as part of a plan to integrate various companies, such as Finsiel, Netsiel, Telesoft, Sodalia and the former information technology function of Telecom Italia, is organized as follows:



To reflect the new strategic guidelines, the Business Unit was altered at the beginning of 2002 and is now subdivided into two new organizational structures:

– **Information Technology Group (ITG)**

The companies comprising the ITG Business Unit (IT.Telecom, Telesoft group, Netsiel, Sodalia, Netikos) will be oriented towards increasing efficiency and quality within the framework of service activities directed at all the Business Units of the Telecom Italia Group operating on the market. The companies Saritel and TILAB will also report to ITG.

– **Information Technology Market (ITM)**

The companies comprising the ITM Business Unit (Finsiel group) will continue to pursue activities geared directly to the external market. This market is made up of central and local administrations moving towards decentralization and e-government, as well as banks and businesses.

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■ MAJOR EVENTS/SCOPE OF CONSOLIDATION

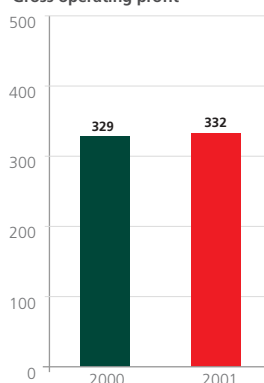
During the year, the first phase of industrial rationalization and corporate reorganization was fully implemented according to homogeneous areas of the Business Unit through the following transactions:

- the sale of Telecom Italia's "Information Systems Development Service" business segment to Telesoft
- the sale of Finsiel's "Applications Software Development Services" business segment to Telesoft
- the sale of the Eis "Services" business segment to Netsiel
- the sale of Consiel's "Health" business segment to Finsiel
- the transfer of the investment in Lottomatica to Finsiel, through the partial, nonproportional spin-off of Sogei. This transaction was aimed at its subsequent listing on the stock exchange, which took place in 2001
- sale of Consiel's "Training" business segment to the Scuola Superiore G. Reiss Romoli

■ ECONOMIC AND FINANCIAL DATA

The following table shows the key results for 2001, compared to those in 2000.

Gross operating profit



(millions of euro)	2001 (A)	2000 (B)	Change (A-B)	
			Amount	%
Sales and service revenues	2,033	2,138	(105)	(4.9)
Gross operating profit	332	329	3	0.9
% on Revenues	16.3%	15.4%		
Operating income	162	134	28	20.9
% on Revenues	8.0%	6.3%		
Investments:				
- Industrial	129	125	4	3.2
- Goodwill	1	1	-	-
Employees at year-end (number)	11,288	12,005	(717)	(6.0)

The trend in sales and service revenues was affected by the new outsourcing contracts signed in 2001 by Telesoft and Netsiel with the Domestic Wireline Business Unit of the Parent Company, completing the corporate spin-offs of Telecom Italia's former information technology function. These contracts, which aim to achieve maximum efficiency at competitive market prices, produced a considerable reduction of revenues in the areas devoted to those activities. However, during the year, profitability gradually improved, both in terms of gross operating profit and operating income.

■ INFORMATION ON OPERATIONS

During the year, operations were marked by a series of initiatives with the following aims:

- ensuring innovation, development and optimum IT-operations within the Group
- developing the range of professional IT services in new and traditional segments of the market
- starting to take action with regard to the organization, governance processes, technologies and expertise necessary for implementing the new IT industrial plan

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Finsiel group

Held by: Telecom Italia 77.92%.

The group supplies software and information technology services to the market, particularly the areas of banking, finance and the Public Administration.

The table shows the key economic highlights:

	2001 (millions of euro)	2000 (millions of euro)	Change (%)
Sales and service revenues	1,209	1,167	3.6
Gross operating profit	168	159	5.7
Operating income	124	107	15.9

Activities during the year:

- development of processes for the administrative and tax decentralization of central and local Public Administrations
- broadening of the range of on-line services in the fields of e-business, e-banking and training
- launch of a range of customized web-based solutions for companies, banks and Public Administrations



Telesoft group

Held by: Telecom Italia 60.00%, Finsiel 40.00%.

The group supplies software and information technology services for the Telecom Italia Group.

The table shows the key economic highlights:

	2001 (millions of euro)	2000 (millions of euro)	Change (%)
Sales and service revenues	525	450	16.7
Gross operating profit	42	35	20.0
Operating income	25	20	25.0

Activities during the year:

- development of activities on behalf of the Telecom Italia Group, partly by creating management processes for the telecommunications network and support systems for marketing



Netsiel SpA

Held by: Telecom Italia 68.65%, Finsiel 31.35%.

The company manages Telecom Italia's information technology structures.

The table shows the key economic highlights:

	2001 (millions of euro)	2000 (millions of euro)
Sales and service revenues	359	63
Gross operating profit	119	20
Operating income	14	3

NB - The data for 2001 are not comparable to those of the prior year.

Activities during the year:

- start-up of the new activity, following the contribution of Telecom Italia's "Information Systems Operation" business segment on December 31, 2000

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Sodalia SpA

Held by: Telecom Italia 100.0%.

The company creates innovative software for telecommunications.

The table shows the key economic highlights:

	2001 (millions of euro)	2000 (millions of euro)	Change (%)
Sales and service revenues	21	26	(19.2)
Gross operating profit	6	7	(14.3)
Operating income	2	3	(33.3)

Activities during the year:

- in the wireline area, the most significant project involved the creation of an integrated platform to manage the broadband network, on which work will continue in 2002.

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SATELLITE SERVICES



- ▶ **Growth in consolidated revenues**
- ▶ **Development of operating performance**
- ▶ **Focus on multimedia and broadband satellite services**
- ▶ **Participation in the most important space projects in Europe**

■ THE STRUCTURE OF THE BU

The "Satellite Services" Business Unit (consisting of the Telespazio group and Telecom Italia's "Satellite Telecommunications" business segment) is responsible for developing satellite communication systems for phone and data, radio and television broadcasting and earth-observation.



■ MAJOR EVENTS/SCOPE OF CONSOLIDATION

The main corporate events during the year include:

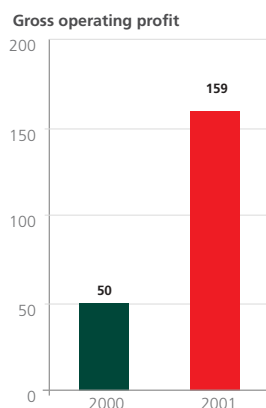
- the suspension of the Astrolink project, a description of which is given below
- the sale of the investments in the Intelsat, New Skies Satellite, Inmarsat and Eutelsat satellite consortiums at the end of 2001

These transactions had no effect on the scope of consolidation.

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■ ECONOMIC AND FINANCIAL DATA

The following table shows the key results for 2001, compared to those in 2000.



	2001 (A)	2000 (B)	Change (A-B)	
(millions of euro)			Amount	%
Sales and service revenues	648	340	308	90.6
Gross operating profit	159	50	109	218.0
% on Revenues	24.5%	14.7%		
Operating income (loss)	60	(52)	112	°
% on Revenues	9.3%	°		
Investments:				
· industrial	29	31	(2)	(6.5)
· goodwill	-	-		
Employees at year-end (number)	1,196	1,206	(10)	(0.8)

The positive results of operations in 2001 were influenced by industrial growth and by the early conclusion of the important Astrolink order, as well as the positive trend of the "Media & Communication" and "Space System" segments. More precisely, in the "Media & Communication" segment, the volumes generated by the Television sector partly compensated the fall in volumes of the Telecommunications sector. With regard to space activities, work was stepped up on large international projects. As far as Astrolink is concerned, the difficult economic scenario that emerged from the collapse of the New Economy and the tragic events of September 11 influenced the strategic priorities of Lockheed Martin (majority shareholder and main supplier of Astrolink). The project came to a definitive halt in December, making it necessary to writedown the financial investment. Overall, the negative effects deriving from the Astrolink project were partly absorbed by the gains realized on the sale of shares in portfolio.

■ INFORMATION ON OPERATIONS

■ Media & Communication

- Start-up of the marketing of multimedia services on the Evolv-e platform. These activities acquire greater importance in relation to the competitive scenario that has resulted from the emergence of new operators and from the transformation of the satellite consortiums Eutelsat and Intelsat into companies
- Continuation of outsourcing activities for the United States Navy, the Ministry of Defense and for the management of a new broadband service for Inmarsat, scheduled to become operational in 2002
- Acquisition of a contract with Unicredito (Xelion) to connect on-line trading stations situated on mobile vehicles which traveled around Italy in 2001
- Consolidation of the FIAT network which currently connects the headquarters in Turin to more than 1,700 dealers located in 17 European countries, for which further expansion is planned
- Acquisition of the services for "Il Sole24Ore", which uses the broadcasting capacity of Skyplex technology on board Hot Bird satellites to broadcast a television channel, a radio channel, an information bulletin about stock-exchange listings (Radiocor) and the pages of its newspaper to printers located nationwide for printing

■ Space System

- Intensification of activities associated with the major projects currently in progress: Galileo (positioning, navigation and mobile communications system), Cosmo Skymed (the high-resolution earth-observation with both fiber optic and radar systems), SICRAL (the national military satellite telecommunications system) and ARTEMIS (the advanced satellite telecommunications system of ESA, the European Space Agency)

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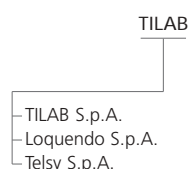
TILAB



- ▶ **Creation of TILAB with the contribution of Telecom Italia's "Venture Capital" business segment to CSELT**
- ▶ **New projects for the mobile and wireline networks**
- ▶ **Innovative solutions in strategic ICT sectors**
- ▶ **Research in areas capable of leveraging synergies for the Group**

■ THE STRUCTURE OF THE BU

The TILAB Business Unit, created from the integration of the technological experience of CSELT and the Venture Capital Management experience of Telecom Italia, identifies and manages innovative initiatives, creating business opportunities both for companies within the Group and for the external market.



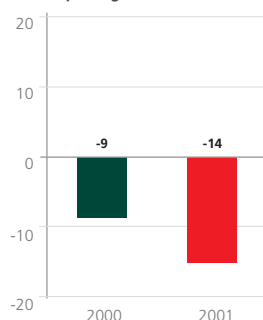
■ MAJOR EVENTS/SCOPE OF CONSOLIDATION

- sale of the business segment devoted to general services and real-estate management to Olivetti Multiservices (OMS);
- formation of Loquendo from the spin-off of vocal technologies;
- acquisition, through Loquendo, of 100% of the share capital of Vocal Point, a California company operating in the field of vocal web, re-named Loquendo Inc.; at the same time, Vocal Point shareholders acquired an approximate 16% stake in Loquendo.
This initiative, the primary objectives of which were industrial integration, with the development of portfolio of products and an outlet for Loquendo on the North American market, was not successful. Loquendo Inc. was therefore placed in liquidation;
- creation, with the American group Ramius Capital, of the United States Saturn Venture Partners fund for investments in ICT technologies;
- acquisition from SAIAT of 100% of Telsy, a manufacturing company for products and services in computer security systems in TLC;
- reorganization of the investment portfolio through the concentration of Venture Capital investments in foreign subsidiaries, maintaining direct control over industrial investments.

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■ ECONOMIC AND FINANCIAL DATA

Gross operation loss



The following table shows the key results of 2001, compared to those in 2000.

(millions of euro)	2001 (A)	2000 (B)	Change (A-B)	
			Amount	%
Sales and service revenues	134	123	11	8.9
Gross operating loss	(14)	(9)	(5)	(55.6)
% on Revenues	°	°		
Operating loss	(34)	(34)	-	-
% on Revenues	°	°		
Investments:				
- Industrial	16	33	(17)	(51.5)
- Goodwill	6	-	6	°
Employees at year-end (number)	1,422	1,287	135	10.5

Despite the difficulties associated with the repositioning of activities within the Telecom Italia Group and the fall in orders on the part of certain functions of the parent company, revenues increased by 8.9%, thanks to the growth in demand by TIM and the growth in non-captive activities. The deterioration of the gross operating loss (-55.6%), on the other hand, was caused by the considerable increase in the consumption of raw materials and outside services, and by the increase in labor costs, due essentially to a rise in the number of employees (+10.5%), and partly the result of the acquisition of Telecom Italia's "Venture Capital" business segment.

The operating loss, despite benefiting from lower operating costs, remains unchanged compared to the prior year.

■ INFORMATION ON OPERATIONS

The activity of the Business Unit, which focuses on R&D and which also involved the start of cooperation with Pirelli Labs and with suppliers of strategic importance for the Telecom Italia Group, included:

- the study of qualified techniques in mobile and fixed sectors
- the definition of tools for network design, planning and management
- the definition and testing of local access techniques
- the development of solutions, products and architectures that can be integrated in silicon
- the development of modular products, developed as software and which can be transformed into firmware for special solutions or hardware components
- the creation of the first prototypes of intelligent aerials and passive filtering systems for UMTS
- the refinement and multi-lingual extension of techniques for voice synthesis and voice recognition

The most significant achievements in 2001 include:

- An experimental fiber optic automatic routing network (ASON/GMPLS), able to automatically activate optic connections (wavelengths) whenever the need arises (the Optical transport network for the new Internet). Furthermore, in the field of optical networks a measurement system has been developed to characterise the polarisation dispersion of single-mode optical fibres. Both projects are essential in terms of the cooperation begun with Pirelli Labs.
- Definition of analytical models for dimensioning the radio resources of a *GSM/GPRS* cell

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shared by voice and data services, and for characterizing data traffic. Models were also created for dimensioning the access network and the *UMTS Core Network*.

- Consolidation of the NETPLANNER platform, to dimension various network structures and carry out the resulting technical and economic assessments, and the NETCOST platform, which can analyze the actual and incremental costs of services supplied by the telecommunications network.
- Creation of a platform to locate mobile land-based terminals based on in-house technology.
- Creation of the AMICO platform, which can create and manage Instant Messaging (or chatting) services. The platform, which has been adopted by TIM, is particularly innovative because it integrates mobile access.
- Definition of the business models and the relative reference architectures for the Content Delivery Network. In addition, the CDN Services Center was designed with the aim of offering innovative content distribution (policy definition/enforcement, configuration, monitoring, reporting) in a multi-Content Provider logic to Networks/Service Providers.
- Reproduction of the JADE platform, formerly completely developed by TILAB, in a *light* version known as JpL (JADE powered by LEAP), and subsequently transferred to a mobile platform (iPaq).
- Development of the *JoeXpress* platform, in the field of the development of MPEG, a service which will become operational in June, and *Movida*. In the same field, the *Easy Video Platform* proposal was designed to supply audiovisual services on mobile systems.
- With reference to the VIPLibrary system (System on Chip) the new product *VIPlatform* was launched, making it possible to produce complete simulations of ICT systems (for example: complete transmission and reception chains for Level 1 UMTS, data compression and de-compression).

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OTHER OPERATIONS



- ▶ **Rationalization of the "Real Estate" function**
- ▶ **Enhancement of the Stream package**
- ▶ **Creation of the single decoder**

With regard to the "Other operations" of the Telecom Italia Group, there follows a description of the key highlights of the "Real Estate and General Services" business segment, the company Stream and the financial companies Softe and Sogerim.

■ REAL ESTATE AND GENERAL SERVICES

The "Real Estate and General Services" segment provides *asset and property management* services and leverages the value of the real estate properties of the Group, carries out the project design and work on properties and provides *project and facility management*. The BU comprises the internal structures of Telecom Italia (Telecom Italia's Real Estate and General Services business segment), as well as the consolidated companies Emsa, Telimm and Immsi and the affiliates Im.Ser and Telemaco Immobiliare. The two latter companies became operational from December 1, 2001 and from May 1, 2001, respectively, following the real-estate spin-off transactions carried out by the parent company Telecom Italia at the end of 2000.

The economic performance of the segment, the revenues of which were affected by adjustments to the corporate pricing system to agree with the best market conditions, can be summarized as follows:

	2001 (millions of euro)	2000 (millions of euro)	Change (%)
Sales and service revenues	953	980	(2.8)
Operating costs	809	836	(3.2)
Gross operating profit	145	147	(1.4)
% on Revenues	15.2%	15.0%	
Operating loss	(65)	(55)	(18.2)

The above data takes into account the exchanges between the Real Estate function and General Services and the other functions of Telecom Italia S.p.A..

■ SUBSIDIARIES

Softe S.A.

Held by: Telecom Italia 99.99%, Saiat 0.01%.

In 2001 Softe and Sogerim provided financial support to the companies in the Telecom Italia Group on international markets.

As far as Softe is concerned, because of the uncertainty surrounding the macro-economic situation which emerged during the year and became more serious in the last months of 2001 as a result of the tragic international events, and which also caused a high level of instability on all the financial markets, it was decided to writedown the stocks and bonds portfolio for a total of US \$193 million.

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This led to a loss for the year 2001 of US \$192 million (compared to a profit in 2000 of US \$25.3 million).

Sogerim S.A.

Held by: Softe 99.95%, Saiat 0.05%.

As far as Sogerim is concerned, in the first half of 2001, within the framework of the plan to reduce the debt exposure of the Telecom Italia Group, notes were issued for a total of euro 8.5 billion, subdivided as follows:

- euro 2.5 billion that can be converted into TIM or Seat Pagine Gialle ordinary shares, which expire on March 15, 2006 (the noteholder has the option of redeeming the notes prior to March 15, 2004);
- euro 6 billion subdivided into three tranches of between euro 1.3 billion and euro 2 billion, respectively, which expire on April 20, 2004, at a variable rate of interest, and on April 20, 2006 and April 20, 2011, at a fixed rate of interest.

The year ended with a loss of euro 61 million (euro 0.3 million in 2000).

Saiat S.p.A.

Held by: Telecom Italia 100.0%.

During 2001, in addition to its traditional activities of providing support to Telecom Italia in the financial sphere and in the management of its investments, the company began to operate as a servicer (under Italian Law 130/99) within the framework of the securitization program for trade accounts receivable undertaken by Telecom Italia S.p.A..

■ AFFILIATED COMPANIES

Stream S.p.A.

Held by: Telecom Italia 50.00%.

The company operates in the Pay TV sector.

In February 2002, Telecom Italia reached an agreement with News Corporation and Vivendi Universal/Canal+ for the sale of its 50% holding in Stream. The agreement, which is subject to the approval of the competent Italian authorities, involves the simultaneous sale of 50% of Telecom Italia to News Corporation and the acquisition of 100% of the share capital of Stream by the French group Vivendi Universal.

The price of the sale of the 50% stake in Stream owned by Telecom Italia was fixed at US \$ 42 million. When the sale will be concluded, Telecom Italia will waive its rights to the trade accounts receivable from Stream of approximately US \$80 million. The economic effects of the transaction have already been considered in the extraordinary provisions set aside in the financial statements.

The following table shows the key economic and financial highlights:

	2001 (millions of euro)	2000 (millions of euro)	Change (%)
Sales and service revenues	250	147	70.1
Gross operating loss	(286)	(238)	(20.2)
Operating loss	(475)	(344)	(38.1)

Activities during the year:

- better package offers including the Calcio channel and three new theme-oriented channels (MT Channel, Stream Verde and Fox News)
- acquisition of the broadcasting rights for all the matches of the Uefa Champions League for seasons 2001-2002 and 2002-2003, and the rights to Bologna Calcio starting in season 2001-2002
- creation of the "single decoder"

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■ OTHER RELEVANT INFORMATION ABOUT TELECOM ITALIA GROUP

HUMAN RESOURCES

■ GROUP

Employees at December 31, 2000 *	Employees at December 31, 2000	Employees at December 31, 2001	Change	Increase	Decrease
107,171	114,669	109,956	(4,713)	10,981	15,694

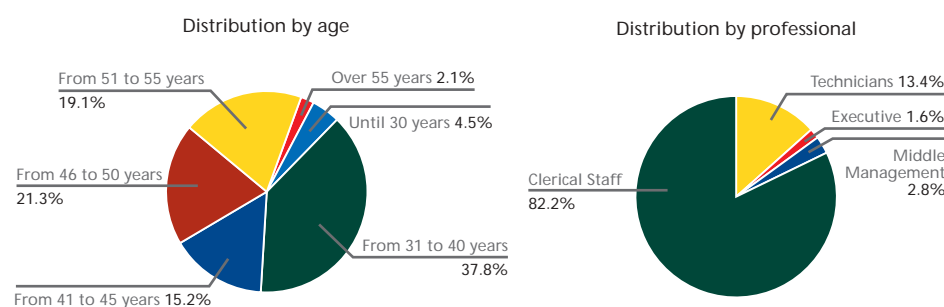
(*) Restated to give effect to the consolidation of Nortel Inversora group using the equity method instead of the proportional consolidation method

At December 31, 2001 employees numbered 109,956, with an increase of 2,785 compared to the restated 2000 figures, deriving from the change in the scope of consolidation and, with a decrease due to the effect of employee turnover mainly at Telecom Italia.

With regard to employee turnover, the principal component is the reduction in the employees of Telecom Italia S.p.A. (see table below).

The change in the scope of consolidation mainly refers to the International Operations Business Unit (in which the most significant variations took place: the exclusion of the Nortel Inversora group in Argentina with -7,498 persons and the entry of Entel Chile with +4,681 persons), Mobile Services (new companies in Brazil) and Internet and Media (increases in media and information technology activities), resulting in a final total which is substantially unchanged in terms of numbers (equal to 0.1%).

The following graph shows the number of employees of Telecom Italia S.p.A. by age-group and professional category:



■ TELECOM ITALIA

Employees at December 31, 2000	Employees at December 31, 2001	Change	Hired	Terminated employment	Transferred to other Group companies
66,541	61,081	(5,460)	795	(5,562)	(693)

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■ DEVELOPMENT / TRAINING

In 2001, development and training activities refer to the following areas:

- management topics: economics, technological and market scenarios, customer relationship management, teamwork and change management;
- special topics: TLC systems design, sales techniques, call center management, network design, data networks, network help desks, SAP.

In particular, in order to develop the new professional skills associated with the Internet, the project “Development of Professional Internet Skills” was launched, with the aim of selecting, training and developing talented high school and university graduates in order to meet the needs of the Business Units and the companies in the Group. Within the framework of this initiative, 3 crash program courses were held, involving 300 young employees (126 university graduates and 174 high school graduates), for a total of 145,000 participant /hours in the classroom and 106,000 participant/hours of on-the-job training.

■ INDUSTRIAL RELATIONS

The industrial relations of the Group mainly covered the following areas:

Employment

- on February 16, an agreement was signed with the labor unions according to which 300 new high school graduates and new university graduates were recruited by the Group under on-the-job training contracts for the Internet profession;
- on March 5, the agreement was signed for a return to work of 600 employees who had been laid off under government unemployment compensation programs, concluded with the agreement reached to layoff 1,522 employees on September 6;
- on September 12, in Naples, the first of the call centers under the March 28, 2000 reorganization agreement was established, with the setting up of the company Telecontact Center. Under the agreement with the labor unions, the National Labor Contract for Telecommunications will be applied and 450 young people will be hired under on-the-job training and employment contracts.

Corporate reorganization

- In keeping with the strategy established in the “Development and Reorganization Plan”, activities continued to focus on the core business of telecommunications through the following transactions:
 - sale of the business segment that deals with the printing of Telecom Italia telephone bills to Printel;
 - sale of the “Fleet Management” business segment to Savarent Fleet Services (with effect from March 1, 2002).
- Organization units were decided for the various companies according to their mission.

National contract for Telecommunications and profit bonus

- On July 16, Telecom Italia and the labor unions reached agreement about the application of the National Labor Contract (in force at Telecom Italia since October 1, 2000) and the relative company labor agreements. Similar agreements were reached with regard to TIM, Telecom Italia Lab, Telespazio, Telesoft and Sodalìa.
- On July 16, agreements were reached about the amounts of the profit bonus to be paid in 2001 for Telecom Italia. Agreements about a profit bonus were also signed for TIM, Telesoft, Telespazio, Telecom Italia Lab, Sodalìa, Netsiel, Finsiel, Sogei and Saritel.
- On December 22, agreements were reached with the labor unions to apply the National Labor Contract for Telecommunications to Atesia.

Labor union rights

- On October 9, agreement was reached to set up Unitary Union Representatives in Telecom Italia. The subject of permission slips for union business was defined in the agreement of November 28, 2001.

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Foreign subsidiaries

- On June 7, agreement was reached between Entel Bolivia and the national labor unions for the renewal of the collective national labor contract. The agreement introduces a bonus calculated on the basis of the EBITDA, reviews the levels of the long-service mechanism and advocates flexible working hours and incentives to reduce the workforce.

■ STOCK OPTION PLANS

On July 27, 2001 the Board of Directors approved a Stock Option Plan involving approximately 1,400 executives and middle management employed by companies in the Group, selected on the basis of special responsibilities and/or expertise.

This initiative follows those already begun in 1999 and 2000 and described in the notes to the financial statements of those years.

The common factor to all these initiatives is the assignment of personal and non-transferable *inter vivos* rights that can be used to purchase an equal number of new Telecom Italia ordinary shares against payment. The 2001 plan – which does not involve employees of the TIM and SEAT groups which, since the companies are listed on the stock exchange, have already launched their own Stock Option Plans – led to the assignment of No. 67,025,000 options to purchase shares at the price of euro 10.488 (equal to the arithmetic average of the official prices of Telecom Italia ordinary shares on the screen Trading Market organized and managed by Borsa Italiana S.p.A. during the period June 27, – July 27, 2001). The exercise of the options, which are subdivided into two separate lots, each equal to half the options attributed, is subject to the achievement of performance parameters correlated to the best average trend of Telecom Italia shares compared to that of the Dow Jones EuroStoxx TLC share index in certain periods. However, the achievement of the parameters relating to the second lot mean that the options in the first lot can be exercised.

In compliance with the recommendation contained in Consob Communication No. 11508 of February 15, 2000, the following table summarizes the key features of the Stock Option Plan in force in 2001:

	2001 Plan			2000 Plan			1999 Plan		
	Number of options	Exercise price	Market price	Number of options	Exercise price	Market price	Number of options	Exercise price	Market price
(Amounts in euro)									
Rights existing at 1/1/2001	-	-	-	51,430,000	13.815	11.902	11,411,500	6.791	11.902
New rights assigned during the year	67,025,000	10.488	10.702	-	-	-	-	-	-
Rights exercised during the year	-	-	-	-	-	-	1,496,350	6.791	11.904
Rights expired and not exercised during the year	-	-	-	-	-	-	-	-	-
Rights expired during the year due to termination of service/other reason	575,000	10.488	9.076	860,000	13.815	11.590	68,500	6.791	11.426
Rights existing at 12/31/2001	66,450,000	10.488	9.713	50,570,000	13.815	9.713	9,846,650	6.791	9.713
of which exercisable at 12/31/2001	-	-	-	15,173,333	13.815	-	4,258,550	6.791	-

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Plan	Exercise price (in euro)	Number of rights assigned at December 31, 2001 and exercisable from				Maximum duration of options
		2001	2002	2003	Total	
1999	6.791	4,258,550	5,588,100	-	9,846,650	3 years beginning from each year
2000	13.815	15,173,333	15,173,333	20,223,334	50,570,000	5 years beginning from each year
2001	10.488	-	33,225,000	33,225,000	66,450,000	5 years beginning from each year

As far as the 2000 plan is concerned, because the exercise price is approximately 40% higher than the current price of the shares, a new plan is being drawn up for executives who were assigned options and are still working for the company, subject to their voluntary relinquishment of the 2000 plan, with the aim of recapturing the goals of management incentives and retention which are fundamental to stock option plans.

RESEARCH & DEVELOPMENT

In addition to what has already been described in the section about the TILAB BU, there follows a description of the key activities of the Telecom Italia Group with regard to Research & Development.

In 2001, most of the R&D activities of the Telecom Italia Group were conducted by TILAB by its 1,080 employees.

The activities involved research and testing in the field of fixed, mobile and Internet telecommunications. Particular attention was devoted to the study of qualified techniques (radio-locating, messaging and multimedia services), the definition of tools for network design, planning and management, the definition and testing of local access techniques, and the development of solutions, products and architectures that can be integrated in silicon. Significant results were achieved in this sector with regard to the ADSL access modem and IP networking (network processor). The overall R&D costs incurred during 2001 amounted to approximately euro 138 million. The total of grants and low-interest loans to support R&D costs, already received or awaiting receipt by TI Lab, amounted to approximately euro 10 million.

CHANGEOVER TO THE EURO

In 2001, the Telecom Italia Group carried out the necessary action to bring the information systems in line with the new single currency. This was achieved in two phases:

- during the first nine months of 2001 the first phase involved changes and the expansion of the software and data structures of all the procedures involved, both within the Group and in its external dealings;
- during the last quarter (final phase) contingency plans were created and tested and an "Independent verification and validation" of the most important corporate systems was carried out through suppliers, methodologies and tools that are different from those used in the adaptation phase, in order to highlight any problems in time for them to be corrected.

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CORPORATE GOVERNANCE

Supporting the principles of corporate governance recommended by Borsa Italiana S.p.A. is a fundamental decision for the Telecom Italia Group which, during 2001, continued with the procedure of gradually improving the present system, paying continuous attention to matters of transparency and comparison with the best practices. There follows a summary of the how the governance systems of Telecom Italia S.p.A. effectively work:

■ THE MARKET

In 2001, the Company organized eight formal meetings with the market (for analysts, institutional investors, and members of the national and international specialist Press). They included conference calls, road shows and Press conferences, as well as the annual meeting held in Florence on February 4 and 5, and the provision of copious amounts of detailed information disseminated through press releases and the publication of institutional documentation (periodical compulsory and voluntary reports, such as the social and environmental report, information about shareholders' meetings and individual transactions conducted on the market). The constant aim, one that will apply equally in the future, was to ensure a supply of efficient, continuous, timely information to the financial market, resorting to the most suitable tools and adopting special organizational solutions for the purpose. In this connection, it should be mentioned that the Investor Relations function has been entrusted to an autonomous Central Function, the mission of which extends to the Group as a whole, while the special section of the corporate website www.telecomitalia.it was recently enhanced and its content

updated with the aim of meeting ever-more sophisticated information requirements.

The Board of Directors has not yet adopted a formal procedure for communicating documents and information concerning the Company, and particularly price sensitive information, to the outside world. Furthermore, the subject is governed by a consolidated practice, which has been shown to be functional to corporate requirements. The process of defining the content of information which must be communicated to the market involves the Central Functions of "Investor Relations", "Communication and Image" and "Corporate and Legal Affairs" of the company, together with the supervision by top management and the support of the structures which, from time to time, are in possession of the necessary information. Within this framework, from an organizational point of view, relations with the media are entrusted to a special structure operating within the Central Function of "Communication and Image", which acts in association with the corporate information office that relays information to Borsa Italiana S.p.A. (which is the Central Function of "Corporate and Legal Affairs") with the aim of verifying that the obligations laid down by governance standards are observed.

■ SHAREHOLDERS'

Meetings

During 2001 the rules concerning shareholders' meetings approved by the Ordinary Shareholders' Meeting of October 20, 2000, and laid down in Article 20, last section, of the corporate by-laws, was applied for the first time.

The ordinary shareholders met three times (on May 3, June 12 and November 7¹);

¹ The above-mentioned Shareholders' Meetings discussed the following matters respectively:

- May 3, 2001 - conversion of the share capital into in euro, authorization to launch an offer for the conversion of savings shares into ordinary shares against payment and to buy-back ordinary shares;
- June 12, 2001 - financial statements, appointment of a Director, review of the salaries of Directors and Statutory Auditors, review and appointment of the audit firm,

authority to increase the share capital for the purposes of stock option plans and to issue notes, other changes to the by-laws;

- November 7, 2001 - election of the new Board of Directors, authorization for the purchase and acquisition and the subsequent disposition of treasury stock, a payment supplement based on the actual figures for the auditors' work in 2000, transfer of the registered office and other changes to the corporate by-laws.

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savings shareholders also met once (on October 31) to appoint the common representative, leading to the election of Professor Carlo Pasteris.

As usual, the meetings provided an opportunity for dialogue and comparison between management and the shareholders, however, this was conducted in full respect of the standards about the dissemination of price sensitive information.

Shareholder pacts

It is well-known, since it was communicated on a timely basis to the market in accordance with current laws, that a series of shareholder pacts have been reached containing, amongst other things, important clauses concerning the composition and the resolutions of Telecom Italia's Board of Directors. The above-mentioned agreements were made among the shareholders of Olimpia S.p.A. (Pirelli S.p.A., Edizione Holding S.p.A. - Edizione Finance International S.A., Unicredito Italiano S.p.A. and IntesaBCI S.p.A.), which holds approximately 28.7% of the share capital of Olivetti S.p.A., the parent company of Telecom Italia.

■ BOARD OF DIRECTORS

Composition

Following the resignation of most of the Directors, and the consequent discharge from office of the whole Board, the Ordinary Shareholders Meeting of November 7, 2001 elected a completely new Board, fixing the number of Directors at 15 (Gilberto Benetton, Enrico Bondi, Carlo Orazio Buora, Umberto Colombo, Francesco Denozza, Luigi Fausti, Guido Ferrarini, Paolo Maria Grandi, Natalino Irti, Gianni Mion, Massimo Moratti, Carlo Alessandro Puri Negri, Pier Francesco Saviotti, Marco Tronchetti Provera, Roberto Ulissi) and establishing that the Board will serve for a three-year term.

According to the terms of Article 10 of the corporate by-laws, the appointment was made through a ballot based on lists

of candidates which were published prior to the meeting and deposited at the registered office by the shareholders presenting the lists, together with the *curricula vitae* of the people concerned. The mechanism ensured the presence of three Directors chosen by minority shareholders, who are to be regarded as independent (Umberto Colombo, Francesco Denozza and Guido Ferrarini); furthermore, the Minister of Economy and Finance, in a decree agreed with the Ministry of Production, appointed Roberto Ulissi as a Director of the Board – in compliance with the special powers described in Article 5 of the corporate by-laws – who is also to be regarded as being independent. The following Directors chosen from the list put forward by the majority shareholders are to be regarded as being independent (since they are not majority shareholders, neither do they belong to the above-mentioned shareholder pacts, nor do they have economic relations that would affect their independent judgement with regard to the Telecom Italia Group, the executive Directors, the majority shareholder or the various parties of the shareholder pacts): Luigi Fausti and Natalino Irti.

In the light of the powers that were assigned (see specific paragraph), the executive Directors are the Chairman Marco Tronchetti Provera and the Managing Directors, Enrico Bondi and Carlo Orazio Buora.

Activities and granting of powers

In 2001, the number of meetings of the Board of Directors totaled 18 (three of which took place after the board was renewed), with a consistently high attendance record by the Directors and Statutory Auditors.

In the absence of any indications in the by-laws as to the timing of the meetings, eight meetings have initially been planned for 2002, at general dates communicated to the market as regards corporate events for the dissemination of economic and financial data. The number of meetings planned has been established with a view towards reorganizing the operating activities through the adoption

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of specific organizational² solutions which, disciplining responsibility and operating procedures, make it possible to plan work more effectively, thus emphasizing the Board's role of guidance and supervision over the general operations of the company, which are continuously coordinated and run by the executive Directors and management. In view of the regularity of the meetings, the information due to the Directors, the Board of Statutory Auditors and the Board of Directors from the executive Directors has usually been provided during the course of the Board meetings. A specific procedure is in the advanced stages of preparation to ensure the completeness and effectiveness of the information flows, also to comply with art. 150, sec. 1, of Legislative Decree No. 58/1998 (see specific paragraph). This mechanism could also prove to be useful for a effective preparation of the board meetings, insofar as this will allow the Directors to be kept continually and systematically abreast of basic information that will be supplemented by other elements before each single meeting. The need for preliminary information, in fact, will continue to be met, as in the past, by sending the Directors and Statutory Auditors the specific information covering the matters for business on a timely basis, as stated in the Code of Self-discipline of the Company

After the aforementioned Shareholders' Meeting of November 7, 2001, the Board of Directors granted powers within its board as follows:

- to the Chairman Marco Tronchetti Provera (legal representative of the Company), all necessary powers were assigned to carry out all the acts pertaining to corporate activity in its various forms, with certain exceptions as regards the power to issue personal

and real guarantees (where the signature of the Chairman must be joined by that of a Managing Director, for obligations in excess of single amounts of euro 100 million in the interest of the subsidiaries and the same Telecom Italia as regards real guarantees, or in excess of single amounts of euro 40 million in the interest of third parties) and investments and acts to dispose of, for any reason, investments in subsidiaries and affiliated companies, as well as companies or businesses thereof (where the limit for each transaction is equal to euro 250 million). The Chairman also has emergency powers regarding matters under the Board of Directors' responsibility, the task of reporting to the Board of Statutory Auditors in the manner and under the terms required by art. 13 of the by-laws, the delegation of power to take charge of the management of confidential information and ensure the functioning and adequacy of the internal control system;

- to the Deputy Chairman Gilberto Benetton, signature powers and legal representation of the Company has been assigned, before third parties and in legal cases, in the event of the absence or the impediment of the Chairman;
- to the two Managing Directors, Enrico Bondi and Carlo Orazio Buora, full operating powers have been assigned, with limits in amount differentiated according to the area (the general limit for commitments is currently established at euro 100 million for each transaction). Both Managing Directors have signature powers and can legally represent the Company, before third parties and in legal cases, as stated in the by-laws.

The Board of Directors has also

2 For example, mention should be made of the creation of a Steering Committee to define the direction and strategic guidelines for management of the foreign investment holdings of the Group, an Investments Committee for the approval of investments/disposals over a preset limit, diversified based on the type of transaction (according to the manner established by specific procedures), as well as Business Management Meetings (one for each Business

Unit/Operating Activity) to check the results achieved, the analysis of forecasts/operating performance, the determination of action plans and the monitoring of projects. These are stable bodies for affiliation, coordination and planning, that include the presence of executive Directors and management responsible for the business and corporate structures involved in these areas.

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emphasized the principle that all the aforementioned powers shall be exercised in accordance with the limits of the applicable laws (in areas where such powers have not been delegated by the Board of Directors), as well as the principles and the limits (especially with regard to those reserved for the Board of Directors) envisaged by the Code of Self-discipline of the Company, in this consistent with the Code drawn up by the Corporate Governance Committee of the listed companies (so-called Preda Code). In summary, as stated in the Code of Self-discipline of Telecom Italia, the Board of Directors is reserved powers for the adoption and revision of the rules of corporate governance, the strategic industrial and financial plans, the budget and summary documentation, the investments and divestitures of more than Lire 500 billion (euro 258.2 million), the operations (including the acquisition and divestiture of direct and indirect controlling investments) that are particularly important economically or strategically, with particular reference to related party transactions, the assignment of powers and the definition of the relative limits and manner of reporting, the assignment of the posts and positions in the subsidiaries with annual sales equal to or more than Lire 2,000 billion (about euro 1,033 million), the eventual appointment of general managers, the determination of the remuneration paid to the Directors with specific responsibilities, the supervision of the trend in operations and the verification of the adequacy of the general organization and administration of the Company and the Group. The identification of the transactions to be jointly examined and approved by the Board is taken on the basis of the materiality of the amount (the value of the investment or divestiture involved), in addition to a qualitative analysis of the effect of the transaction on the financial statements or prospects of the Company and the Group (economic or strategic importance). The solution adopted avoids a detailed list of the transactions reserved for the Board of Directors, susceptible to a rigidity in the

functionality of the managerial activity; using this rationale, it becomes clear why the inclusion of "transactions" involving the acquisition or divestiture of investments with direct or indirect control has merely been given as an example.

■ INTERNAL COMMITTEES

The Board of Directors in office has two Committees with controlling and consulting functions: a Committee for Internal Control and Corporate Governance and a Directors' Remuneration Committee. It was decided not to set up a committee to propose candidates, because, at this time, there was deemed to be no need, since the by-laws cover this question, and also in view of the current shareholder base of the Company.

Committee for internal control and corporate governance

The Committee for Internal Control and Corporate Governance is composed of the Directors Roberto Ulissi (Chairman), Guido Ferrarini and Natalino Irti, thus ensuring its utmost independence. The Chairman of the Board of Statutory Auditors, and often the entire Board of Statutory Auditors participates in the work of this Committee. The Committee – in close cooperation with the Board of Statutory Auditors – essentially

- evaluates the adequacy of the internal control system;
- evaluates the work plan prepared by those in charge of internal control and receives reports from the same periodically;
- evaluates the proposals formulated by the independent audit firms in order to be appointed as auditors as well as the audit work plan and the results expressed in the letter of recommendations. To this end, as advised by the Board of Directors, the Committee monitors the manner of application of accounting principles;
- informs, the Board, at least every six months, at the time of the approval of the annual financial statements and six-month financial statements, about the work carried out and the adequacy of

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- the system of internal control;
- monitors that the rules of corporate governance are followed and periodically updated.

In 2001, the Committee for Internal Control and Corporate Governance formally met six times, meeting – among other things – with representatives of the firm in charge of the audit and management.

Between the end of 2001 and the beginning of 2002, the Committee reviewed the theoretical-legal issues and the operating implications connected with fulfilling the disclosure obligations to the Board of Statutory Auditors as stated in art. 150 of Legislative Decree No. 58/1998 and the related Consob regulation, conducting a preliminary examination of the draft of the aforementioned internal procedure, aimed at ensuring the completeness and effectiveness of information flows from the Directors to the Board of Statutory Auditors and from the executive Directors to the entire Board of Directors. Such procedure is being drawn up on the basis of in-dept studies conducted by an inter-department working group assisted by authoritative consultants.

In the meetings held in 2002, the Committee approved the organizational decision to concentrate the internal audit activities of Telecom Italia and its subsidiaries TIM and Seat, in a specific consortium company, which, in February led to the creation of In.Tel.Audit - Società consortile a r.l..

The project – to which the Board of Statutory Auditors is also in agreement – led to the repositioning and reorganization of the system of internal control (of which internal audit is an essential component), which has assumed characteristics of greater sophistication also to take into account the objective complexity of the Group (at the same time evaluating the professional resources within), in addition to the new requirements set forth by Legislative Decree No. 231/2001 with regard to the administrative responsibility of the entities with respect to the offenses committed by its associates. The revision

of the entire system is still underway (especially with reference to identifying the persons to be in charge), but the Committee has at this time deemed that it can be considered adequate, an evaluation that was shared by the Board of Directors at the time of approving the draft 2001 financial statements. At that time, the Committee agreed with the Company concerning the adoption of a Code of Ethics which is currently under study.

Directors' Remuneration Committee

The Directors' Remuneration Committee is also largely composed of independent Directors. Sitting on the Committee, in fact, are the Directors Luigi Fausti (Chairman), Umberto Colombo and Pier Francesco Saviotti.

As is the practice, the Remuneration Committee is in charge of formulating a proposal for the remuneration of the Directors who hold specific responsibilities, establishing that a significant part of the amount be subject to having reached the budget targets.

Furthermore, as in the past, as part of the review of the proposal by the Board, to determine the criteria for the remuneration of top management of the Company, the Committee has been charged with the analysis of the issues connected with the stock option plans.

■ BOARD OF STATUTORY AUDITORS

As you know, the Board of Statutory Auditors of Telecom Italia (renewed on July 3, 2000) is composed of five Acting Auditors (Paolo Germani - Chairman, Mario Boidi, Paolo Golia, Fabrizio Quarta and Gianfranco Zanda), of which two (Paolo Germani – Chairman and Fabrizio Quarta) are appointed by the government and one (Paolo Golia) was elected from the list presented by the minority shareholders. At the time the lists were registered, in accordance with the Code of Self-discipline, the curricula vitae of the candidates were also made available.

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The Board met in 2001 for a total of 29 times, in addition to numerous preliminary and in-depth meetings with management, participation in the work of the Internal Control and Corporate Governance Committee and other institutional commitments envisaged by existing laws.

During the course of its work, the Board, as set forth by art. 149 of Legislative Decree No. 58/1998, monitored the observance of the law and the by-laws, the following of correct administrative principles, the adequacy of the organizational structure of the Company for the part that regards its responsibility, the internal control system and the administrative accounting system.

In light of Consob Communication No. 1025564 dated April 6, 2001 regarding the contents of the report of the Board of Statutory Auditors to the Annual General Shareholders' Meeting, a coordination effort was suggested with the controlling bodies of the other listed Group companies, in close cooperation with the Board of Statutory Auditors of the parent company Olivetti S.p.A.. Moreover, in agreement with the Committee for Internal Control and Corporate Governance, as well as the Offices of the Company, an in-depth study was initiated on the subject of the disclosure obligations set forth in art. 150 of Legislative Decree No. 58/1998 and the relative Consob regulation.

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SOCIAL AND ENVIRONMENTAL AWARENESS

The Telecom Italia Group publishes a Sustainability Report which describes and evaluates the activities conducted to benefit the main stakeholders through specific indicators and based on the most reliable international standards, which are described below:

- **customers/consumers**, based on the CEP (Council of Economic Priorities) criteria
- **suppliers**, based on the SA 8000 Index
- **future generations**, based on the GRI (Global Reporting Initiatives) guidelines
- **the Community**, based on the guidelines of the London Benchmarking Group
- **employees**, in the light of the Human Development Enterprise (HDE) model
- **shareholders**, in the light of the Dow Jones Sustainability Group Index, the Ftse4good and the SIRI.

By publishing this document, the Group is completing its reporting system by making an integrated economic/financial, social and environmental report ("triple bottom line") about its activities.

Through the tool of the Sustainability Report, the Group confirms its earnest wish to strive towards sustainable development and the creation value within a framework of social and environmental responsibility. The reliability of the data, the completeness and exhaustive detail of the information contained in this document have been confirmed by the independent opinion expressed by Reconta Ernst & Young. There follows a description of the key data and the most significant information taken from the Telecom Italia Group's 2001 Sustainability Report.

■ CONSUMERS

The main results of 2001 revealed a high degree of customer satisfaction:

- 87.5% of "Residential" customers and 86.2% of "Business" customers were satisfied by the regular functioning of fixed telephone lines in Italy;
- 89% of customers were satisfied with the quality of the mobile phone network in Italy.

■ SUPPLIERS

The services produced and distributed to the Telecom Italia Group are supplied by companies that are already highly qualified (through subscription to professional registers, SOA declarations and ISO certifications) and for some product sectors regarded as being at risk, are monitored in terms of Vendor Ratings and subjected to incoming quality controls.

■ FUTURE GENERATIONS

Environmental performance is assessed by means of various indicators which make it possible to monitor environmental impact and improve management. There are four main indicators:

- waste management, of which 85% is sent for reuse and recycling processes;
- consumption of natural resources and energy, which is lower than in 2000;
- the quality of the air and the climatic changes which have evolved positively;
- electro-magnetic emissions which are kept systematically under control.

The Group is active in the preparation of "Environmental Management Systems":

- in 2001, the Domestic Wireline Network Business Unit started to produce its own Management System, in compliance with the UNI EN ISO 14001 International Standard, which will be incorporated within the Quality Management System;
- the Mobile Services (Northwest Network) Business Unit implemented a Management System for Quality and the Environment with the aim of obtaining the ISO 9001 certification for Quality and the ISO 14001 certification for the Environment;
- the TILAB Business Unit obtained the certification from DNV for its Environmental Management System, which was developed in compliance with the UNI EN ISO 14001 International Standard.

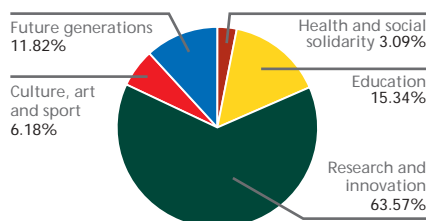
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■ COMMUNITY

The contribution of the main companies in the Group to the Community in 2001 was estimated at euro 77,212 thousand (equal to approximately 1% of the operating income of the Group), in line with the values reported in 2000.

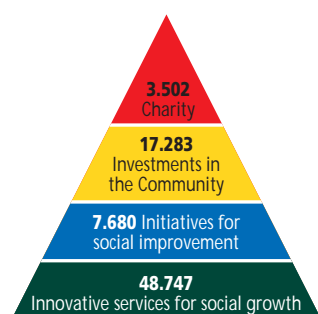
(thousands of euro)	2001	2000
Future generations	9,132	13,441
Research and innovation	49,087	38,773
Education	11,840	5,540
Health and social solidarity	2,384	3,397
Culture, art and sport	4,769	12,702
	77,212	73,853

Distribution of the social and environmental contribution of the Telecom Italia Group
(euro 77.212 million)

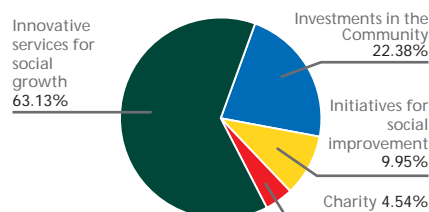


The reclassification of this contribution according to the model of the London Benchmarking Group (which uses the pyramid diagram from the bottom to the top to measure the benefits and business returns deriving from the various activities in temporal terms) can be summarized as follows:

London Benchmarking Group Model
(millions of euro)



Distribution of the social and environmental contribution of the Telecom Italia Group (LBG model)
(euro 77.212 million)

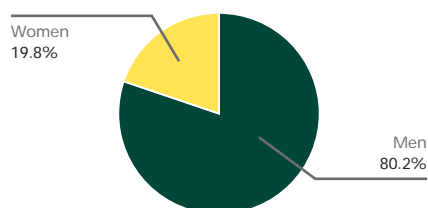


■ EMPLOYEES

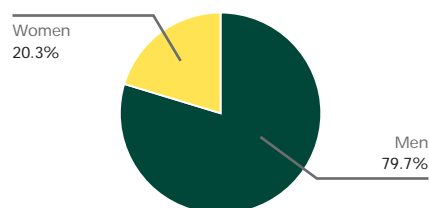
In 2001, a survey of the organizational climate was conducted, involving all the resources of the Telecom Italia Group. The study was devised with a precise aim: to comprehend the level of motivation and job satisfaction. Motivation proved to be "good", job satisfaction "sufficient".

In Telecom Italia S.p.A. equal opportunities for female employees continue to be a priority in the Group. Women represent 8% of the executives and 16% of middle management.

Distribution of men/women at December 31, 2000



Distribution of men/women at December 31, 2001



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THE REGULATORY FRAMEWORK

As set forth by Italian Law No. 249/1997, which instituted the National Regulatory Agency for Communications (referred to as "the Regulator"), and by Presidential Decree No. 318/1997 and Presidential Decree No. 77/01, which implemented directives at Community level, the process of deregulation can now be regarded as complete. There follows a summary of the main decisions adopted during 2001 by the Regulator.

■ RATE REBALANCING

Within the framework of the price cap mechanism and in observance of Resolution No. 847/00/CONS of December 11, 2000, which increased the value of the sub cap applied to the basic subscription charges, the Regulator approved Telecom Italia's proposals to increase the monthly subscription charges for both residential and business customers and to reduce the charges for local, long-distance and international calls.

■ INTERNATIONAL TRAFFIC FROM PUBLIC TELEPHONES AND OPERATOR SERVICES

In Resolutions No. 375/01/CONS and 376/01/CONS, the Regulator approved the prices of international calls from public telephones made through the operator as well as a new method of organizing rate zones. Furthermore, in Resolution No. 271/01/CONS of July 4, the Regulator also approved the new price of the "12" directory information service, which is part of the universal service, fixing it at Lire 840, net of VAT, per call.

■ UNIVERSAL SERVICE

Telecom Italia continues to maintain its obligation to provide certain services – including phone services – at "accessible"

conditions. Such services, which are guaranteed in unprofitable geographical areas to low-profile customers, constitute the so-called "Universal Service", for the supply of which Telecom Italia sustains a "net cost". In Resolution No. 23/01/CIR of November 21, the Regulator estimated the net cost sustained by Telecom Italia for supplying the Universal Service in 2000 at euro 58.90 million, to which Telecom Italia itself contributes 48.26% (euro 28.42 million).

■ GENERAL TELEPHONE DIRECTORY

Following a special public consultation held last summer (Resolution No. 332/01/CONS), on February 6, 2002, the Regulator approved Resolution No. 36/02/CONS on "Rules and organizational methods for the creation and supply of a general telephone directory service and adaptation of the universal service".

The resolution lays down the standards for compiling and supplying the general telephone directory, suggesting the creation of a data bank containing the numbers of all the operators. By June 2002, the Regulator will be able to define the rules for auctions or other competitive mechanisms for the supply of the telephone directories.

■ INTERCONNECTION AND LOCAL LOOP UNBUNDLING

On September 7, 2001, Telecom Italia published the 2001 rate charges for interconnection. The rate charges cover both interconnection services and local loop unbundling services. On March 4, 2002 AGCOM approved the charges, and made a few technical and price changes, the details of which are described in the section "Significant subsequent events".

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With regard to interconnection services:

- in Resolution No.18/01/CIR of August 7, the Regulator established the technical and economic conditions for billing services with the risk of non-payment for access by Telecom Italia subscribers to non-geographical numbers belonging to other operators and the rates for the partial circuits for the interconnection of dedicated lines;
- in Resolution 13/01/CIR Telecom Italia was authorized not to insert the economic conditions for the routing of international traffic of other operators towards the United States, Canada, Switzerland, Norway or the member states of the European Community;
- with regard to direct calls to Internet, Resolution No. 25/01/CIR establishes that Telecom Italia should introduce the new flat-rate interconnection rate known as “FRIACO” (the licensed operators pay a fixed charge instead of an amount based on the minutes of interconnection). On March 12, 2002 the Regulator issued Resolution No. 5/02/CIR, approving Telecom Italia’s flat interconnection rate, but reducing the prices proposed by the Company.

With regard to local loop unbundling:

- during the year, in line with the suggestions made by the Regulator, special areas were made available in exchanges to accommodate other operators with the aim of unbundling local loops (ULL). At December 31, 2001 Telecom Italia handed over equipped technological areas to operators in 748 exchanges.
- Following Resolution No. 24/01/CIR, on December 12, 2001 Telecom Italia presented its rate plan to the Regulator for shared access and sub loop (shared access to the local network and access to line boxes).

■ NUMBERING PLAN

Resolutions No. 12/01/CIR and 19/01/CIR establish the rules for Number Portability on mobile networks (start-up scheduled for April 2002). The impact of the service

on fixed networks (fixed/mobile calls) will only take effect from April 2003, using routing of direct routing calls.

■ LOWER SUBSCRIPTION CHARGES FOR WEAKER SEGMENTS

In Resolution No. 330/01/CONS of August 1, the Regulator established the guidelines to make Resolution No. 314/00/CONS of June 1, 2000 operational. According to this resolution, the so-called “weaker segments of the clientele” will be able to benefit from a reduction in the monthly subscription charge. The reductions came into effect on December 1, and the Regulator has estimated that they will benefit about 1.3 million customers.

■ WHOLESALE DIRECT CIRCUITS RATES

In Resolution No. 393/01/CONS of October 10, the Regulator requested the publication of the rates for rented lines destined for licensed operators and operators who supply Internet access, and are holders of general authorizations (ISP). The rates of this kind proposed by Telecom Italia were approved by the regulator in Resolution No. 59/02/CONS of March 4, 2002.

■ EQUALITY FOR ISP/OLO

On March 20, 2002, the Bill was approved that recognizes the right of ISPs to take advantage of the interconnection charges that Telecom Italia applies to OLOs, based on the relevant rate plan.

■ RATE PLAN FOR DATA USING X-DSL AND SDH TECHNOLOGY

In Resolution No.04/01/CIR of February 22, the Regulator approved the rates for Telecom Italia’s Permanent Virtual Channel, thus removing the barriers to

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the marketing of Telecom Italia's RING and Full Business Company retail services.

Regulations, the manner and terms of supplying the telephone service.

■ INTRODUCTION OF THE EURO

In Resolutions No. 417/01/CONS of November 17 and No. 468/01/CONS of December 19, the Regulator provided all the operators in the Telecommunications sector with guidelines on informing the public about the rates for telecommunications services, including public telephone services, and the introduction of the euro. With reference to public telephone services, the new rate for a single unit charge has been fixed at euro 0.10.

■ SERVICE CARD

In observation of Resolution No. 820/00/CONS, on July 19, 2001 Telecom Italia adopted the "Service Card" and the "General Conditions of Subscription" for telephone services; the latter establish, for customer subscribers, without interruption of service with regard to the Service

■ ACCESS TO INFRASTRUCTURES AND SHARING OF SYSTEMS

The Regulator is working on the text of three regulations concerning civil responsibilities, backbone networks and access to Telecom Italia's civilian infrastructures.

The issue of the first two regulations is a result of Italian Law No. 249/97 and follows a special public consultation held in the first months of 2001. Conversely, the regulation about access to Telecom Italia's civilian infrastructures implements what is laid down in the terms of Telecom Italia's license.

The proceedings initiated by the antitrust authorities, regarding the correct observance by Telecom Italia of the measure, which was a condition of the SEAT-TMC transaction, obliging it to grant access to its civilian infrastructures to operators who intend to use them for supplying interactive multimedia services to final users, ended in favor of Telecom Italia.

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LITIGATION

There follows a description of the main disputes and litigation in which the Telecom Italia Group is involved at December 31, 2001. Except where specifically mentioned, the Telecom Italia Group did not make any provision to the risk reserves because of the absence of definite and certain elements and/or because a negative conclusion of the litigation is considered improbable.

■ DISPUTES CONCERNING RESOLUTIONS PASSED AT SHAREHOLDERS' MEETINGS

The rulings originating from the resolution with which the Shareholders' Meeting of January 14, 2000 authorized the buy-back of savings shares through a tender offer and subsequent acquisitions on the stock market, concluded on January 10, 2001, are still pending at the first degree court.

In particular, some shareholders filed a claim for damages against Olivetti, Telecom Italia, as well as the Chairman and Deputy Chairman pro tempore of the latter company, for a total of euro 18.9 million. The claim is based on the alleged non-fulfillment of the commitments contained in the "Offer Document" relating to the takeover and exchange bid by Olivetti and Tecnost for Telecom Italia in 1999, and also for the resolutions passed by the shareholders' meeting of January 14, 2000, especially in relation to the mandate to purchase Treasury savings stock on the screen trading market, as set forth by applicable laws, subsequent to the end of the period of the offer. This same resolution was contested by another shareholder who pleaded that the proposal put to the shareholders' meeting had been changed from the one deposited prior to the shareholders' meeting.

With regard to the expiry of the deadline established for promoting the offer to voluntarily convert savings shares into

ordinary shares (as a result the proposed buy-back of ordinary shares will not take place), the proceedings opposing the resolutions passed at the shareholders' meeting of May 3, 2001, which involved the authorization to establish a subsidiary for the purpose of acquiring Telecom Italia ordinary shares, through a tender offer, as well as the offer to convert savings shares against payment, has been abandoned.

■ SEAT PAGINE GIALLE/DE AGOSTINI ARBITRATION

De Agostini has initiated arbitration proceedings against Seat, Matrix, Buffetti Group and Finanziaria Web for the alleged nonfulfillment of the framework agreement of September 20, 2000, with regard to Seat's obligation to acquire the Finanziaria Web S.p.A. shares still held by the De Agostini Group (40% of the share capital, whereas the remaining 60% was already held by Seat).

Effectively, De Agostini Group maintains that all the conditions stipulated in the contract for executing the agreement were verified, whereas Seat maintains that this is not true and that, in any case, the fact that market conditions changed rendered the quid pro quo excessively onerous.

The De Agostini Group is asking for the specific execution of the framework agreement and therefore that the Finanziaria Web shares should be disposed for transfer to Seat for the amount originally agreed of euro 700 million, with payment beginning on June 30, 2003, as well as the payment of unspecified damages.

■ SEAT PAGINE GIALLE/CECCHI GORI COMMUNICATIONS

Following the acquisition of Cecchi Gori Communications by Seat Pagine Gialle,

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through the contract stipulated on August 7, 2000 with Fin.Ma.Vi. S.p.A. and Cecchi Gori Group Media Holding S.p.A. (Cecchi Gori Group), a dispute has been in progress.

In particular, in May 2001, the Cecchi Gori Group had a summons presented to Cecchi Gori Communications and Seat Pagine Gialle, asking that the resolutions passed by the Cecchi Gori Communications shareholders' meeting on April 27, 2001 be declared invalid, after their suspension (rejected).

In August 2001, the Cecchi Gori Group also filed suit before the Court of Milan asking for the annulment of the pledge of the Cecchi Gori Communications shares owned by the Cecchi Gori Group, stipulated to guarantee the correct fulfillment of all the obligations of the seller companies laid down in the contract of purchase dated August 7, 2000.

Under the arbitration clause in the same contract, arbitration proceedings are also pending, brought by the Cecchi Gori Group with the aim of establishing the invalidity, ineffectiveness or termination of the contract of purchase (essentially because the condition for suspension, represented by obtaining the necessary authorizations from the pertinent authorities by the established deadline, did not take place) or ask for fulfillment and, in any case, to obtain payment of damages.

The Board of Arbitration was established on October 2001 and set itself the deadline of December 31, 2002 as the date by which the proceedings must be completed.

■ DISPUTE REGARDING ITALIAN LAW NO. 1369/1960

Two rulings are pending in which INPS – by virtue of the provisions of Law No. 1369/1960 – is demanding payment from Telecom Italia for a total of approximately euro 31 million for the failure to pay social security contributions on the part of Comitel and Telefon, contracted to carry out work on the network, and now bankrupt.

In particular, the sentence regarding Comitel is under appeal, while the sentence regarding Telefon ended with a ruling in Telecom Italia's favor in the appeals courts, subject to an appeal by INPS to the Supreme Court.

A third verdict, resulting from Telecom Italia's opposition to an injunction by INPS for approximately euro 15 million, was recently concluded with the injunction being cancelled.

Numerous disputes are pending involving workers (formerly employed by contracting companies), some of whom are demanding to be employed by Telecom Italia, others to be paid according to the telephone contract, for a total of more than euro 35 million.

Furthermore, any risk to Telecom Italia in these disputes, given the current legal standing, is considered remote.

■ UNIVERSAL SERVICE

The companies Omnitel and Infostrada presented an appeal to the Regional Administrative Court (TAR) of Lazio to obtain the annulment of the resolution issued by the Regulator on the subject of sharing the net cost of the universal service for the year 1999. According to the above-mentioned resolution, part of the net cost of the universal service, recognized as an unfair burden for Telecom Italia (which is legally bound to supply the service), was divided between the companies presenting the appeal and TIM.

While judgment was pending, the companies presenting the appeal did not pay the portion of the fees (fixed at a total of euro 9 million) to the special fund set up at the Ministry of Communications, thus so far preventing the latter from paying the whole amount owed to Telecom Italia to cover part of the costs of 1999 (euro 27 million).

With a sentence reached in January of this year, the TAR ruled in favor of the appeal presented by Omnitel, only for the part where it contested the regular constitution of the discussion. The TAR did not rule in favor as to the merits

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under dispute or the appeal by Telecom Italia which is concentrated on excluding the "12" Directory Information Service from the universal service.

In February 2002, appeals were presented before the TAR of Lazio by Omnitel Pronto Italia and Wind Telecomunicazioni to annul, after suspension, the efficacy of the resolution issued by the Regulator with regard to the sharing of the cost of the universal service for the year 2000.

Effectively, both the companies appealing contested the illegality of the resolution for the lack of an inquiry and for not having had access to the documentation resulting from the consultancy commissioned by the Regulator on the analysis of the net costs.

Omnitel also asked for the case to be referred to the Court of Justice of the European Community, for a preliminary interpretation, in order to ascertain the correct interpretation of the Community directives, and, secondly, the non-application of the national law in question.

■ DATA-TRANSMISSION SERVICES AND INTERNET ACCESS BASED ON X-DSL TECHNOLOGY

Following the start of an investigation into Telecom Italia's conduct with regard to the supply of basic band direct circuits, the offer to its business users of broadband data-transmission and Internet access services based on x-DSL technology, without any corresponding wholesale rate plan for its competitors, the definition of the charges to competitors of wholesale services with ADSL access, on April 27, 2001 the antitrust authorities imposed a fine of euro 59 million on Telecom Italia. In November, the TAR of Lazio reduced the fine to euro 29 million. The fine was paid in January. However, the deadline for presenting an appeal to the Council of State is still pending and no decision has as yet been taken.

Meanwhile, claims have been brought before the competent civil courts for the payment of damages for a total of euro

351 million by Albacom, Infostrada, AIIP, Unidata, Data Service and other operators, for the alleged abuse of a dominant position on the part of Telecom Italia in supplying broadband data transmission and Internet access services based on the application of x-DSL technologies, in the absence of any corresponding wholesale rate plan destined for the competition.

■ GALACTICA DISPUTE

At the end of May 2001 a dispute arose between Telecom Italia and the Internet Service Provider Galactica S.p.A. (currently in liquidation) for the failure to renew the agreement concerning the testing of an Internet access service, at a flat rate. In this connection – after appeals were urgently presented to a civil court, and to the Milan Court of Appeal under Law No. 287/1990, both were rejected - Galactica cited Telecom Italia for the alleged illegality of withdrawal, claiming damages and challenging Telecom Italia not to interrupt the distribution of the service.

In February 2002, Galactica therefore presented another summons for damages caused by the alleged unfair trade practices of Telecom Italia.

In addition, it should be mentioned that reconciliation proceedings brought before the Regulator concluded with no agreement having been reached.

■ "12" DIRECTORY INFORMATION SERVICE

At the end of March, Telecom Italia presented an appeal to the TAR of Lazio (with a simultaneous claim for damages) for the annulment of the resolution adopted by the Regulator, referred to in its letter of March 23, 2001, which imposed – after having authorized the new "12" directory information service – the resumption of the original technical and economic conditions.

At the hearing on July 11, 2001, the new resolution of the Regulator of July

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4, 2001 was filed, changing the conditions of the service charge to Telecom Italia's satisfaction. The hearing was therefore postponed to a date as yet to be agreed.

■ ALLEGED UNFAIR TRADE PRACTICES BY TELECOM ITALIA HURTING MARKET DEVELOPMENT

Following a petition by 27 operators of the competition concerning the fact that the strategies of Telecom Italia are allegedly hurting market development, in regulation No. 179/01/CONS the Regulator objected to a series of violations committed by the Company, and, in July 2001, proceeded to apply the previously announced sanctions with special resolutions.

Telecom Italia contested both the regulation and the special resolutions.

■ FEE CONCERNING ARTICLE 20, SECTION 2 OF LAW NO. 448 OF DECEMBER 23, 1998

Telecom Italia, Tim, Wind and Omnitel, before the TAR of Lazio, contested the Ministerial Decree of March 21, 2000 introducing Italian Law No. 448 of December 23, 1998, which, on January 1, 1999, established a new license fee in place of the concession fee, the amount of which progressively declines until 2003. The TAR asked the administrative offices of the Ministries of the Treasury and of Communications to consign a documented report of clarifications regarding the correspondence that had taken place with the European Commission in connection with the approval of the above-mentioned law. Furthermore, with regard to extraordinary appeals presented by Infostrada and Albacom to the Head of State, asking for the annulment of the above-mentioned decree, the Council of State brought the case before the European Court of Justice, raising the question of the non-compatibility of the

fee with Community regulations relating to telecommunications.

Following the dispute, Telecom Italia and Tim did not pay the amount that they were ordered to pay for 2000 (equal to euro 307 million and euro 179 million, respectively).

■ INQUIRY BY THE ATTORNEY GENERAL'S OFFICE OF TURIN

In February 2001, the Attorney General's Office of Turin ordered the start of a preliminary investigation into the transaction involving the acquisition, by Telecom Italia, of 29% of the capital of Telekom Srbija. Telecom Italia immediately made all the documentation and figures relating to the above-mentioned transaction available to the judicial authorities.

As regards the inquiry that was carried out with the full cooperation of the pertinent functions of the company, in conducting its work on the 2000 financial statements, the audit firm of PricewaterhouseCoopers and the Board of Statutory Auditors advised that no facts emerged, at the time, that could invalidate the correctness of the statutory and consolidated financial statements of Telecom Italia for the years ended December 31, 1997, 1998 and 1999, also with regard to the effects on the year ended December 31, 2000.

* * *

At the beginning of July, the company was asked to present documentation concerning mainly the transactions for the acquisition of Seat and the merger of Tin.it-Seat.

The corporate offices provided the utmost cooperation to the authorities conducting the investigation and placed all documentation at their disposition.

■ SOGEI CONCESSION

Sogei (a subsidiary of Finsiel) was entrusted with the concession for the management of the financial information

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systems by the Ministry of Finance (now the Ministry of Economy) in 1992, expiring in May 2001.

Sogei - under the provision of art. 14 of Legislative Decree No. 333/1992, converted into Law No. 359/1992 – maintains that this concession should now be considered as being extended until May 2012. According to the Ministry of Health, instead, the concession would have expired without any extension; thus the Ministry has identified an Advisor for bids to be called for assigning the operation of its information services systems.

Sogei has therefore contested, before the TAR of Lazio, the notice for the bid to identify an Advisor and also initiated arbitration proceedings in order to establish its right to the extension of the concession. The Administration contested the competence of the Board of Arbitration and did not appoint an arbitrator of its choice, which was then nominated by the President of the Courts. The formation of the Board of Arbitration, with the appointment of its president is being awaited.

In May 2001, the Ministry and Sogei, with the rights of the parties remaining unchanged, agreed to a “technical extension” of the original concession up to May 2003.

There are also arbitration proceeding in progress to ascertain whether the right of Sogei (covered by the convention) to take advantage of the cooperation of the companies in the Finsiel Group, without these companies being considered third-party companies, is not precluded by Community law and the national law that introduced it.

■ FINSIEL CONCESSION

Italsiel (merged by incorporation in Finsiel on July 1, 1994) was granted a concession on July 24, 1991 by the Ministry of Sanitation (now the Ministry of Health) to set up and run the health information system; the concession was to expire on July 31, 2000.

Finsiel – under the provision of art. 14 of

Legislative Decree No. 333/1992, converted into Law No. 359/1992 – maintains that this concession should be considered as being extended by law. According to the Ministry of Health, instead, the concession would have expired without any extension.

On July 28, 2000, as requested by the Administration – with the positions of the parties remaining unchanged – a private contract was stipulated between Finsiel and the Ministry of Health to complete the development and operation of the health system, with an expiration date of July 31, 2001. On August 1, 2001, another contract was signed for the period to July 31, 2002.

The Ministry, in the meantime, published two calls for bids, one for the “design and development of the New Health Information System (N.S.I.S.) and the system for the security of national health information”, and the other, for the assignment of the services for the “Functional and Technical Operations at the National Level of the National Health Information System”, which Finsiel has contested before the TAR of Lazio, although it took part in the bids. Finsiel also initiated arbitration proceedings in order to have the concessions judged as being extended by law. The Ministry of Health, nevertheless, has declined to accept the Board of Arbitration's competence, according to the general specifications of expenses for the supply and services carried out by the General Supervisory Office of the State, approved by Ministerial Decree No. 16 dated October 28, 1985.

■ NORTEL INVERSORA DISPUTES

In April 2001, Nortel Inversora S.A. was cited to appear before a commercial judge in Buenos Aires for an obligatory attempt at reconciliation with regard to the opposition of certain resolutions passed by the shareholders' meeting of January 19, 2001 which covered, among other things, the approval of the financial statements at September 30, 2000. No

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outcome was reached at the mediation hearing. Consequently, the counterpart initiated action.

In August, a further citation was received, similar to the previous one, for an obligatory attempt at reconciliation with regard to the opposition of certain resolutions passed by the shareholders' meeting of Nortel on April 26, 2001 which covered, among other things, the approval of the financial statements at December 31, 2000. No agreement was reached at the mediation hearing. The counterpart has not yet initiated action. In the meantime, the effectiveness of the shareholders' resolutions that were opposed was suspended and an appeal is pending, filed by Nortel, against the precautionary measures that were taken.

legitimacy of the above-mentioned sale of the receivables.

■ WTC DISPUTE

In March 1999, Telecom filed suit, in the Miami courts, for payment of unpaid invoices of about US \$13 million from the local Wholesale Telecom Corporation ("WTC") that were issued for the capacity supplied for international traffic. WTC presented a counterclaim, also citing TMI USA (a Telecom Italia subsidiary), asking damages from each for a total of US \$60 million. At this time, the pre-trial inquiry is in the process of being concluded. Telecom Italia provided an amount of euro 6 million in a specific reserve in 2001.

■ BRASIL TELECOM DISPUTE

In April 2001, Brasil Telecom filed suit against Telecom Italia and Stet International Netherlands (SIN), and also the two directors of Brasil Telecom nominated by Telecom Italia. This suit has been filed in order to obtain the damages that Brasil Telecom would have suffered following the purchase of CRT (Companhia Riograndense de Telefonía) shares and also because it did not participate in the SMP bid (Serviço Móvel Pessoal). The judge has been asked to quantify the damages. At this time, the preliminary claims by the petitioners is being examined.

■ ENTEL CHILE DISPUTE

The company, Americatel Corporation, in which Entel Chile has a direct 80% stake, carries receivables of about US \$30 million from OAN, a company that provides billing and collection services for Americatel's customers. OAN filed for bankruptcy and it was authorized to sell to third parties the receivables that belong to Americatel. The latter, in the meantime, immediately filed suit in order to avoid confusion over its receivables and OAN's assets, contesting the

■ CHASE MANHATTAN BANK DISPUTE

In June 2000, Chase Manhattan initiated a civil suit in the United States against the shareholders of Iridium LLC after it failed to repay a US \$800 million loan granted by the same Chase to Iridium Operating LLC (subsidiary of Iridium LLC). In particular, Chase requested the specific execution of an alleged commitment by the shareholders to guarantee repayment of the loan by contributing the share capital of Iridium LLC; to this end, the amount claimed from Telecom Italia amounts to about US \$7.5 million, which had already been set aside in the financial statements of the subsidiary Iridium Italia at December 31, 2000. However, Chase was authorized by the judge to change its claim to one of fraud and as a result filed claim for responsibility against all of Iridium LLC's shareholders, jointly and severally, for the entire amount of the loan. Telecom Italia presented a claim in February 2001, stating that it should not have been called to stand judgement since its investment in Iridium LLC, as early as October 1996, had been sold to Iridium Italia S.p.A., a company in which Telecom Italia has a 30% stake, TIM 35% and Telespazio 35%.

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At this time, the pre-trial stage of the case, in which Telecom Italia filed an appeal to be excluded from the case, is still in the process of being concluded.

■ STET HELLAS DISPUTE

In December 1996, Mobitel, a company in the Greek Interamerican group (now Demco Reinsurance), a minority shareholder of Stet Hellas and, at that time, its exclusive representative, initiated arbitration proceedings at the Paris International Chamber of Commerce, principally maintaining its right to receive commissions not only on outgoing traffic generated by the subscribers it had signed up, but also on incoming traffic and that generated by customers in default of payment. The total damages requested are equal to about US \$38 million. Mobitel and Interamerican have also requested damages for a total of US \$172 million following the dissolution of the

exclusive representative contract as notified by Stet Hellas.

The latter and Telecom Italia, which took over from Stet International (formerly the guarantor of the first company and, as such, a party to the contracts at one time signed) presented a counterclaim for an amount of about US \$210 million, mainly to cover the damages suffered as a result of the loss of the acquisition of market share caused by non-fulfillment by Mobitel. In October 2000, a partial award was given which, in principle, agreed with Mobitel's request for recognition of a commission also on Stet Hellas's revenues from incoming traffic; in November 2001, the Board of Arbitration rejected Telecom Italia/Stet Hellas' claim that the Board of Arbitration did not have jurisdiction but that the ordinary Greek courts had exclusive jurisdiction concerning the decision over the quantum, since the Arbitration Board had only been asked to decide on the obligation to pay, a matter which the Board of Arbitration had already decided.

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EQUITY INVESTMENTS HELD BY DIRECTORS AND STATUTORY AUDITORS

Pursuant to art. 79 which introduced Legislative Decree No. 58 of February 24, 1998, adopted by Consob under Resolution No. 11971 of May 14, 1999 and later amended by Resolutions No. 12475 dated April 6, 2000 and No. 13086 dated April 18, 2001, the following table presents the equity interests held by the Directors and Statutory Auditors of Telecom Italia S.p.A. and its subsidiaries.

Name	Company	Number of shares held at the end of prior year	Number of shares purchased	Number of shares sold	Number of shares held at the end of 2001
BOARD OF DIRECTORS					
Marco TRONCHETTI PROVERA	=	=	=	=	=
Gilberto BENETTON	=	=	=	=	=
Enrico BONDI	=	=	=	=	=
Carlo Orazio BUORA	=	=	=	=	=
Umberto COLOMBO	=	=	=	=	=
Francesco DENOZZA	=	=	=	=	=
Luigi FAUSTI (1)	TIM ordinary share	50,000	=	=	50,000
Guido FERRARINI	=	=	=	=	=
Paolo GRANDI	=	=	=	=	=
Natalino IRTI (1)	TIM ordinary share	11,000	=	=	11,000
Gianni MION	=	=	=	=	=
Massimo MORATTI	=	=	=	=	=
Carlo Alessandro PURI NEGRI	=	=	=	=	=
Pier Francesco SAVIOTTI (1)	TIM ord. share	10,000	=	=	10,000
Roberto ULISSI	=	=	=	=	=
Roberto COLANINNO (2)	Telecom Italia ord.	292,000	=	10,000	282,000
	Telecom Italia sav.	530,000	=	305,000	225,000
	TIM ordinary share	254,000	10,000	=	264,000
	Seat Pagine Gialle ord.	471,532	=	=	471,532
Antonio TESONE (3)	TIM ordinary share	625	=	=	625
Sergio EREDE (4)	Seat Pagine Gialle ord.	1,844,358	=	1,844,358	=
Angelo BENEZIA	=	=	=	=	=
Peter A. COHEN	=	=	=	=	=
Salvatore DONATO	=	=	=	=	=
Paolo FERRO-LUZZI	=	=	=	=	=
Emilio GNUTTI (5)	Telecom Italia ord.	1,500	=	=	1,500
	Seat Pagine Gialle ord.	1,288,084	=	50,000	1,238,084
	TIM ordinary share	100,000	=	=	100,000
Jeffrey E. LIVINGSTON	=	=	=	=	=
Ettore LONATI (6)	Telecom Italia sav.	106,000	=	2,000	104,000
	Seat Pagine Gialle ord.	1,724,324	250,000	=	1,974,324
	TIM ordinary share	150,000	=	=	150,000
Domenico Giovanni SINISCALCO	=	=	=	=	=
Joseph M. TUCCI	=	=	=	=	=
Gérard WORMS	=	=	=	=	=
BOARD OF STATUTORY AUDITORS					
Paolo GERMANI	=	=	=	=	=
Mario BOIDI	=	=	=	=	=
Paolo GOLIA	=	=	=	=	=
Fabrizio QUARTA	=	=	=	=	=
Gianfranco ZANDA	=	=	=	=	=

(1) Shares held from November 7, 2001, date of appointment to the post of Director;

(2) Shares held up to July 30, 2001, date of resignation from the posts of Chairman and Managing Director;

(3) Shares not held directly up to September 25, 2001, date of resignation from the post of Director;

(4) Shares not held directly. The purchase took place on December 27, 2000 by the contribution of an indirectly held investment in Databank S.p.A. to Seat Pagine Gialle and the information was not communicated by the person for purposes of the report on operations at December 31, 2000;

(5) Shares not held directly up to November 7, 2001, date of resignation from the post of Director;

(6) Shares held up to November 7, 2001, date of resignation from the post of Director.

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PERFORMANCE OF INTERBUSINESS SERVICES

As required by the antitrust authority, the accounting principles used to determine the economic values for Interbusiness services are described below. These accounting principles have been audited starting from the year 1996.

In 2001, this examination was performed by the firm of Reconta Ernst & Young S.p.A..

• **Revenues:** are stated at market prices for competitive services and at rates established by law for services granted by license and are recorded on the accrual basis. In the case of services provided that imply the use of dedicated access lines by the final customer, the revenues also include the income from leasing such lines (valued on the basis of the rates defined in the ministerial decrees), with the consequent recognition the same amount in costs.

• **Direct costs**

- **labor costs:** represent the cost of personnel who worked to provide such services; the cost includes salary and wages, social security costs, provisions for employee termination indemnities and other sundry costs recorded on the basis of the number of persons in the dedicated operating structures and using cost accounting standards;
- **network utilization costs:** include the cost to use the regulated carrier services (usually direct connections) and the cost to use the carrier products/services offered in a competitive environment; they are therefore valued, respectively, using the rates established by law and the rates applied to all third-party customers, the same as that which occurs in the cost structure of other carriers in the sector;
- **other direct costs:** refer to direct costs (advertising, marketing, service connection, operating and maintenance, etc.) and indirect costs (corporate structure costs supporting the operating lines) valued using cost accounting standards and applying specific allocation methods.

• **Depreciation:** of fixed assets directly employed in providing the services in question are determined on the basis of the estimated useful lives of the assets of Telecom Italia.

The economic results of the interbusiness services are reported as follows:

(in thousands of euro)	2001 (A)	2000 (B)	Change (A-B)	
			Amount	%
Revenues	88,913	121,204	(32,291)	(26.6)
Cost	(80,810)	(100,920)	20,110	(20.0)
of which:				
Labor cost	(5,920)	(6,415)	495	(7.7)
Network utilization costs	(44,878)	(53,209)	8,331	(15.7)
Other costs	(30,012)	(41,296)	11,284	(27.3)
Gross operating profit	8,103	20,284	(12,181)	(60.1)
Depreciation and amortization	(18,439)	(13,669)	(4,770)	34.9
Operating income (loss)	(10,336)	6,614	(16,950)	n.s.

The results for 2001 show an operating loss of euro 10.3 million compared to an operating income of +euro 6.6 million in 2000. Such result is due to the reduction in revenues mainly on account of a decline in customers, who switched to other alternative plans, the decrease

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in market prices and the revision in the manner of how the service is used by Seat-Tin.it and other Internet Service Providers.

The reduction in revenues was only partly compensated by the reduction in costs, which led to a sharp decline in gross operating profit. The operating result was also impacted by the significant increase in depreciation, as a result of higher depreciable assets for the dedicated platform, due to the full use of assets that went into operation in 2000 and the new installations that came into use during the year.

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■ ECONOMIC AND FINANCIAL REVIEW OF TELECOM ITALIA S.P.A.

The financial condition and the results of operations of Telecom Italia for the year 2001 reflect the results emerging from the transactions involving the companies described below that took place in 2000 and 2001.

- Contribution to Tin.it S.p.A., with effect from May 1, 2000, of all the assets and liabilities consisting of the business segments and investment holdings inherent to the operations and marketing of on-line services and products by Telecom Italia, Telespazio and Saritel; on the following November 15, the merger of Tin.it in Seat Pagine Gialle was finalized and became effective for accounting and tax purposes as from May 1, 2000;
- contribution to TE.SS. - Tele Payroll Services S.p.A., operational since November 1, 2000, of the business segment for the management of the personnel administration services of the companies of the Group;
- contribution, on December 1, 2000, of the business segment "Large Buildings", consisting of Telecom Italia's most prestigious real estate properties, to IM.SER., and the successive sale of 60% of this company to Beni Stabili (45%) and Lehman Brothers (15%);
- total spin-off of Stet International to Telecom Italia and TIM as part of the rationalization of the international communications sector. The spin-off was concluded on December 27, 2000 and became effective for accounting and tax purposes as from January 1, 2000;
- contribution to Netsiel, which took place on December 31, 2000, of the business segment for the operations of the information technology services. This transaction falls under the reorganization program of the sector which calls for concentrating all of the Group's operations in the Information Technology sector;
- sale to Telesoft, on March 1, 2001, of the business segment devoted to the development of information systems and the creation of applications software;
- sale of the business segment for printing telephone bills to Printel, which took place on February 1, 2001, and the outsourcing of the related activities to Postel;
- contribution to CSELT, which then changed its name to Telecom Italia Lab, of the "Venture Capital" business segment on March 1, 2001.

The following table shows the results of operations for the year 2001 compared to the year 2000, which has been restated to give effect to the changes consequent to the aforementioned corporate transactions.

(in millions of euro)	2001 (a)	2000 (b)	Adjust- ments	2000 proforma (c)	Change % (a/b)	Change % (a/c)
Sales and service revenues	17,309	17,463	(49)	17,414	(0.9)	(0.6)
Raw materials and outside services (*)	(7,109)	(6,870)	(500)	(7,370)	3.5	(3.5)
Labor cost (*)	(2,616)	(3,057)	102	(2,955)	(14.4)	(11.5)
Gross operating profit	7,571	7,556	(447)	7,109	0.2	6.5
Depreciation and amortization	(3,321)	(3,719)	248	(3,471)	(10.7)	(4.3)
Other valuation adjustments	(159)	(191)	5	(186)	(16.8)	(14.5)
Net other income (expense)	(8)	11	16	27	°	°
Operating income	3,983	3,595	(178)	3,417	10.8	16.6

(*) Reduced by related cost recoveries.

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RESULTS OF OPERATIONS

STATEMENTS OF INCOME

	2001	2000	Change	
			Amount	%
(in millions of euro)				
A. Sales and service revenues	17,309	17,463	(154)	(0.9)
Changes in inventory of contract work in process	(19)	8	(27)	°
Increases in capitalized internal construction costs	6	11	(5)	(45.5)
Operating grants	-	1	(1)	°
B. Standard production value	17,296	17,483	(187)	(1.1)
Raw materials and outside services (*)	(7,109)	(6,870)	(239)	3.5
C. Value added	10,187	10,613	(426)	(4.0)
Labor costs (*)	(2,616)	(3,057)	441	(14.4)
D. Gross operating profit	7,571	7,556	15	0.2
Depreciation and amortization	(3,321)	(3,719)	398	(10.7)
Other valuation adjustments	(159)	(191)	32	(16.8)
Provisions to reserves for risks and charges	(100)	(62)	(38)	61.3
Net other income (expense)	(8)	11	(19)	°
E. Operating income	3,983	3,595	388	10.8
Net investment and financial income (expense) and value adjustments	(377)	892	(1,269)	°
F. Income before extraordinary items and taxes	3,606	4,487	(881)	(19.6)
Net extraordinary income (expense)	(2,893)	(179)	(2,714)	°
G. Income before taxes	713	4,308	(3,595)	(83.4)
Income taxes	(562)	(1,749)	1,187	(67.9)
H. Net income	151	2,559	(2,408)	(94.1)

(*) Reduced by related cost recoveries.

Sales and service revenues, amounting to euro 17,309 million, decreased by 0.9% compared to 2000 (euro 17,463 million). The total includes revenues from services of euro 17,045 million and revenues from sales of euro 264 million (respectively, euro 17,108 million and euro 355 million in 2000).

The reduction in sales revenues (-euro 91 million, -25.6%) is due to the fact that the Company, from the second half of 2000, leaves manufacturers with the responsibility for the direct sale of the equipment to some customers and limits itself to only providing the plans for the telecommunications systems (which also explains the reduction in costs for the sales of products, discussed later).

The reduction in service revenues (-euro 63 million, -0.4%) can be attributed to traffic revenues which fell by 6.9% even though the number of minutes rose by 30.7% (corresponding to +euro 1,257 million in terms of revenues). However, this increase was reduced by a decline in the average return on traffic (retail and wholesale) of 28.8% (from euro 5.5 cents per minute in 2000 to euro 3.9 cents per minute), a decrease of euro 1,912 million in terms of revenues.

Such performance was affected by:

- the discount policies aimed at customer retention;
- the strong growth in traffic "carried" on behalf of other operators and on-line traffic, which caused an increase in the volumes of minutes handled on one hand and, a shift to a less remunerative mix in the types of traffic;
- the rate changes in the second half of 2000 and 2001 which lowered the prices of local, long-distance and international traffic.

These phenomena were partly compensated by the increase in basic subscriber charges of

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+8.7%, as a result of the aforementioned rate changes, the development of data connections, the growing number of subscribers to various discount rate plans proposed by the Company and the demand for interconnecting services with the Telecom Italia network by other wireline operators.

Sales and service revenues, net of amounts due to other telecommunications operations, instead, amount to euro 13,894 million, with a decrease of euro 419 million (-2.9%) compared to 2000.

Gross operating profit, of euro 7,571 million increased by euro 15 million compared to 2000 (+0.2%). The percentage of gross operating profit to sales and service revenues shows a slight improvement and was 43.7% compared to 43.3% in 2000.

The change is mainly due to the above-mentioned reduction in revenues (-euro 154 million) and higher raw materials and outside services (+euro 239 million) that were completely absorbed by the labor costs, which fell by euro 441 million compared to 2000.

The change in raw materials and outside services is mainly due to the following factors:

- the increase in operating costs (+euro 367 million), chiefly attributable to the rental payments on the buildings sold to IM.SER in December 2000, and the costs to operate the information systems (business conferred to Netsiel in December 2000), which both totaled euro 371 million;
- the increase in the amounts due to other operators (+euro 265 million), owing to the sharp growth in interconnecting traffic;
- the reduction in marketing costs (-euro 173 million), chiefly attributable to the sales of products (-euro 125 million) – in relation to the comments made under sales revenues - to costs (-euro 25 million) connected to the business for the printing of the White Pages telephone directories contributed to Tin.it and advertising and promotional campaign costs (-euro 59 million);
- the reduction in direct service costs (-euro 144 million), due to the effect of both the savings consequent to the continuation of the program to rationalize installations and the lower installation and maintenance costs connected with switching and data transmission systems.

Total raw materials and outside services, net of the amount due to other operators, amounted to euro 3,694 million in 2001 and is euro 26 million lower than last year.

The reduction in labor costs (-euro 441 million) can be ascribed mainly to the effects of a decrease in the average number of employees (-11,145 persons compared to 2000, -15.4%) due to employee cutbacks under Law 223/1991 and employees no longer with the company on account of the contributions or the sales of business segments in 2000 and 2001.

Operating income, amounted to euro 3,983 million, an increase of euro 388 million from 2000 (+10.8%). The ratio of operating income to revenues was 23.0%, compared to 20.6% in 2000; the increase is due to lower depreciation and amortization (-euro 398 million), euro 242 million of which is due to the reduction in depreciable assets following the contribution of assets to IM.SER and Netsiel, in December 2000, and Telesoft in 2001, as well as the change in the mix of depreciable assets.

Net income, euro 151 million, is euro 2,408 million lower than in 2000. The change is due to the following:

- the increase in financial expenses, net (+euro 1,166 million), as a result of higher interest expense mainly due to the increase in debt exposure and the provision for the forward purchase commitment on Seat Pagine Gialle shares for euro 569 million in connection with the estimated nonrecoverability of the original price to exercise the option;
- increase in the writedowns of investments (+euro 337 million), mainly in the subsidiaries Telespazio (euro 91 million), TMI - Telemidia International Italia (+euro 60 million), TI Lab

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(euro 50 million), Softe (euro 87 million) and in the affiliated company Stream (+euro 39 million);

- increase in extraordinary expense (+euro 2,454 million) principally as a result of the extraordinary provisions, euro 2,527 million, made in respect of the investments held by SIN and TIWEB, and the provision, euro 248 million, for expenses on the agreement with Vivendi/CanalPlus for the transfer of the investment in Stream. The extraordinary expenses in 2000 included the costs for the corporate reorganization plan that followed the agreements reached with the labor unions over layoffs and unemployment compensation plans (euro 285 million) and expenses and provisions relating to the transactions for the disposal of investment holdings and the contribution of business segments (euro 170 million);
- reduction in extraordinary income (-euro 260 million) mainly due to the fact that 2000 included gains of euro 666 million, largely relating to the contribution of the business segment "Large Buildings" to IM.SER (euro 510 million) and the sale of Sirti (euro 117 million), while in 2001, the gains realized totaled euro 264 million (of which euro 139 million relate to the contribution of the investments in Intelsat, Inmarsat and New Skies Satellites to Mirror International GmbH, euro 111 million to the sale of the investment in Eutelsat to Mirror International Holding and euro 120 million to the reserves released for provisions made in excess in prior years relating to the reserve for the contract with Iraq (euro 62 millions) and the reserve for corporate restructuring costs (euro 50 million).

The above negative effects were only partly absorbed by net investment income (+euro 233 million) and lower income taxes (-euro 1,187 million) as a result of the reduction in the taxable base which was impacted by the aforementioned extraordinary provisions regarding the international investment holdings.

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FINANCIAL CONDITION

BALANCE SHEETS

(in millions of euro)	12/31/2001	12/31/2000	Change
A. Intangibles, fixed assets and long-term investments			
Intangible assets	1,318	1,189	129
Fixed assets	14,109	15,135	(1,026)
Long-term investments:			
- Equity investments and advances on future capital contributions	18,149	19,847	(1,698)
- Other	221	912	(691)
	33,797	37,083	(3,286)
B. Working capital			
Inventories	77	77	-
Trade accounts receivable	5,104	5,085	19
Other assets	3,868	3,149	719
Trade accounts payable	(3,549)	(4,369)	820
Reserves for risks and charges	(1,613)	(884)	(729)
Other liabilities	(3,875)	(3,557)	(318)
	12	(499)	511
C. Invested capital, net of operating liabilities (A+B)	33,809	36,584	(2,775)
D. Reserve for employee termination indemnities	(1,025)	(1,031)	6
E. Invested capital, net of operating liabilities and reserve for employee termination indemnities (C+D)	32,784	35,553	(2,769)
Financed by:			
F. Shareholders' equity			
Share capital paid-in	4,023	3,835	188
Reserves and retained earnings	11,697	12,320	(623)
Net income	151	2,559	(2,408)
	15,871	18,714	(2,843)
G. Medium/long-term debt	10,371	3,188	7,183
H. Net short-term borrowings			
Short-term borrowings	7,538	15,713	(8,175)
Liquid assets and short-term financial assets	(1,248)	(2,132)	884
Financial accrued expenses and deferred income, net	252	70	182
	6,542	13,651	(7,109)
(G+H)	16,913	16,839	74
I. Total (F+G+H)	32,784	35,553	(2,769)

As far as **intangibles, fixed assets and long-term investments** are concerned, the reduction in fixed assets from December 31, 2000 is due to the difference between additions (euro 2,466 million), depreciation (euro 3,321 million) and disposals (euro 343 million) covered almost entirely by accumulated depreciation (euro 303 million). "Long-term investments" amounted to euro 18,370 million and decreased by euro 2,389 million since December 31, 2000. The reduction is mainly due to:

- new investments for euro 1,889 million;
- writedowns for euro 3,148 million including the extraordinary writedowns to the value of the investments in SIN and TIWEB for a total of euro 2,527 million;
- disposals/decreases in investments for euro 578 million;
- cancellation of No. 112,998,070 savings shares of treasury stock for a total of euro 711

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million when the share capital was re-denominated in euro. The transaction is described in the note on "share capital".

Working capital, showed a positive figure of euro 12 million (-euro 499 million at December 31, 2000) and increased by euro 511 million. The increase is mainly due to higher "other assets" (+euro 719 million) principally as a result of higher income tax and VAT receivables and the reduction in "trade accounts payable" (-euro 820 million). Such effects have been partly absorbed by the increase in the "reserve for risks and charges" (+euro 729 million) – primarily for the provision relating to the forward purchase commitment on Seat Pagine Gialle shares for a total of euro 569 million, and expenses connected with the sale of Stream – and the increase in other liabilities (+euro 318 million).

The securitization of accounts receivable from residential customers during the year led to a reduction in trade accounts receivable at December 31, 2001 of euro 877 million, of which euro 684 million were not yet due. The transaction is fully described in the notes to the financial statements of Telecom Italia S.p.A. to which reference should be made.

Net invested capital of euro 32,784 million (euro 35,553 million at December 31, 2000), is financed by shareholders' equity for 48.4% and net borrowings for 51.6%.

Shareholders' equity went from euro 18,714 million at December 31, 2000 to euro 15,871 million at the end of 2001. The reduction of euro 2,843 million is due to:

(in millions of euro)	2001	2000
At January 1	18,714	18,374
Net income	151	2,559
Portion of capital grants available	15	16
Dividends paid out	(2,309)	(2,327)
Cancellation of the reserve for treasury stock in portfolio	(711)	-
Increase in paid-in-capital	10	-
Share capital increase	188	-
Reduction in revaluation reserve Law 72, 3/19/83	(187)	-
Increase in other reserves	-	92
At December 31	15,871	18,714

Net debt totals euro 16,913 million (euro 16,839 million at December 31, 2000) and is substantially in line with that at December 31, 2000, thanks to the equilibrium between the following factors:

requirements for:

- financial investments;
- distribution of dividends;

financed by:

- sale of investments in the former satellite consortiums;
- effect of securitization transaction;
- cash flows provided by operating activities.

The composition of debt has changed as a result of the issue of four Telecom Italia notes for a total of euro 8,250 million, thus making it possible to consolidate a significant portion of short-term borrowings.

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The above notes refer to:

- three issues for a total of euro 6,750 million, at a fixed interest rate, subscribed to entirely by Sogerim; the first on May 31, 2001 for euro 3,300 million, the second on August 3, 2001 for euro 3,000 million and the third on December 28, 2001 for euro 450 million.
- one issue on December 21, 2001 placed on the market and listed on the Luxembourg stock exchange for euro 1,500 million, at a floating interest rate.

Gross debt at December 31, 2001 totals euro 17,909 million (euro 18,901 million at December 31, 2000); details are provided in the following table:

(in millions of euro)	12/31/2001						12/31/2000	
	Euro	%	Currency	%	Total	%	Total	%
Medium/long-term debt	10,055	57	316	78	10,371	58	3,188	17
Short-term borrowings	7,449	43	89	22	7,538	42	15,713	83
Total	17,504	100	405	100	17,909	100	18,901	100

The previously mentioned transaction for the securitization of receivables led in an improvement in net debt at December 31, 2001 of euro 848 million.

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FINANCIAL PERFORMANCE

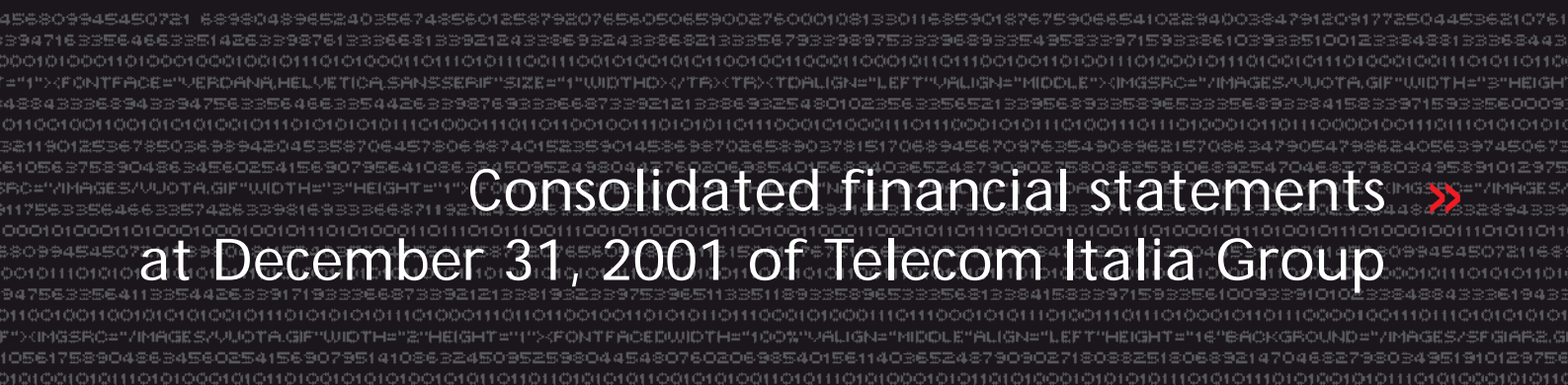
STATEMENTS OF CASH FLOWS

(in millions of euro)	2001	2000
A. Net debt, at beginning of year	(16,839)	(8,298)
B. Cash flows - operating activities		
Net income	151	2,559
Depreciation and amortization	3,321	3,719
(Gains) losses on sales of intangibles, fixed assets and long-term investments	(241)	(610)
Writedowns of intangibles, fixed assets and long-term investments	3,148	327
Change in working capital (*)	(514)	(1,867)
Net change in reserve for employee termination indemnities	(6)	(86)
	5,859	4,042
C. Cash flows - investing activities		
Intangibles, fixed assets and long-term investments	(4,495)	(13,923)
. <i>intangible assets</i>	(727)	(671)
. <i>fixed assets</i>	(1,739)	(1,898)
. <i>long-term investments</i>	(2,029)	(11,354)
Intangibles, fixed assets and long-term investments purchased as a result of corporate transactions	(413)	(4,724)
Proceeds from sale, or redemption value, of intangibles, fixed assets and long-term investments	975	4,179
Intangibles, fixed assets and long-term investments sold as a result of corporate transactions	280	4,104
	(3,653)	(10,364)
D. Cash flows - financing activities		
Contributions by shareholders	10	-
Capital grants	19	17
Change in shareholders' equity as a result of corporate transactions	-	91
	29	108
E. Dividends	(2,309)	(2,327)
F. Change in net debt (B+C+D+E)	(74)	(8,541)
G. Net debt, at end of year (A+F)	(16,913)	(16,839)

(*) The difference with respect to the reclassified "balance sheet" is due to entries affecting working capital. They refer to changes in capital grants, the use of the reserve for losses of subsidiaries and affiliates, the adjustment of medium/long-term loans receivable to year-end exchange rates.

The change in net debt was due to the following:

(in millions of euro)	2001	2000
Increases (decreases) in medium/long-term debt	7,183	(1,057)
Increases (decreases) in short-term borrowings	(7,109)	9,598
Total	74	8,541



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■ CONSOLIDATED BALANCE SHEETS

ASSETS

(in millions of euro)

	12/31/2001	12/31/2000 (***)	12/31/2000 historical
RECEIVABLES FROM SHAREHOLDERS FOR CAPITAL CONTRIBUTIONS			
- PORTION CALLED IN			
- PORTION NOT CALLED IN	1	2	2
TOTAL RECEIVABLES FROM SHAREHOLDERS FOR CAPITAL CONTRIBUTIONS	1	2	2
INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS			
- INTANGIBLE ASSETS			
Start-up and expansion costs	104	100	100
Industrial patents and intellectual property rights	1,274	809	819
Concessions, licenses, trademarks and similar rights	4,307	3,315	3,505
Goodwill	47	69	69
Consolidation difference	9,094	10,102	10,230
Work in progress and advances to suppliers	874	840	840
Other intangibles	497	336	474
TOTAL INTANGIBLE ASSETS	16,197	15,571	16,037
- FIXED ASSETS			
Land and buildings	2,877	2,656	2,947
Plant and machinery	16,649	16,299	18,126
Manufacturing and distribution equipment	73	79	78
Other fixed assets	731	600	836
Construction in progress and advances to suppliers	1,427	1,087	1,438
TOTAL FIXED ASSETS	21,757	20,721	23,425
- LONG-TERM INVESTMENTS			
Equity investments in:			
unconsolidated subsidiaries	18	21	21
affiliated companies	4,764	7,589	7,199
other companies	145	188	191
Total equity investments	4,927	7,798	7,411
Advances on future capital contributions	1,659	187	187
Accounts receivable: (*)		(*)	
unconsolidated subsidiaries	2		
affiliated companies	117	127	127
other receivables	80	279	282
Total accounts receivable	82	406	409
Other securities	86	3	6
Treasury stock		662	662
TOTAL LONG-TERM INVESTMENTS	7,064	9,056	8,675
TOTAL INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS	45,018	45,348	48,137
CURRENT ASSETS			
- INVENTORIES			
Raw materials and supplies	22	20	21
Work in progress and semifinished goods	6	10	13
Contract work in process	352	467	467
Finished goods and merchandise:			
finished goods	2	1	2
merchandise	253	170	214
Advances to suppliers	1	8	8
TOTAL INVENTORIES	636	675	725
- ACCOUNTS RECEIVABLE (**)		(**)	(**)
Trade accounts receivable	3	2	5
Accounts receivable from unconsolidated subsidiaries	7,904	7,537	7,997
Accounts receivable from affiliated companies	31	41	41
Accounts receivable from parent companies	567	435	413
Accounts receivable from parent companies	1	2	3
Other receivables	478	472	487
TOTAL ACCOUNTS RECEIVABLE	481	474	492
- SHORT-TERM FINANCIAL ASSETS			
Equity investments in unconsolidated subsidiaries	247	392	392
Equity investments in affiliated companies		6	6
Other equity investments	9	38	38
Other securities	1,935	1,869	2,020
Receivables for sales of securities	3	1	1
TOTAL SHORT-TERM FINANCIAL ASSETS	2,194	2,306	2,457
- LIQUID ASSETS			
Bank and postal accounts	757	1,281	1,299
Cash and valuables on hand	5	4	5
TOTAL LIQUID ASSETS	762	1,285	1,304
TOTAL CURRENT ASSETS	16,619	15,645	16,369
ACCRUED INCOME AND PREPAID EXPENSES			
Issue discounts and similar charges	94	2	2
Accrued income and other prepaid expenses	938	988	1,005
TOTAL ACCRUED INCOME AND PREPAID EXPENSES	1,032	990	1,007
TOTAL ASSETS	62,670	61,985	65,515

(*) Amounts due within one year.

(**) Amounts due beyond one year.

(***) Restated balance sheet at December 31, 2000 giving effect to the valuation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

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LIABILITIES AND SHAREHOLDERS' EQUITY

(In millions of euro)

	12/31/2001	12/31/2000 (***)	12/31/2000 historical
SHAREHOLDERS' EQUITY			
PARENT COMPANY INTEREST IN:			
- SHARE CAPITAL	4,023	3,835	3,835
- RESERVE FOR TREASURY STOCK		662	662
- RESERVES AND RETAINED EARNINGS	11,567	12,296	12,296
- NET INCOME (LOSS)	(2,068)	2,028	2,028
TOTAL PARENT COMPANY INTEREST	13,522	18,821	18,821
MINORITY INTEREST IN:			
- SHARE CAPITAL, RESERVES AND RETAINED EARNINGS	5,377	5,007	5,788
- NET INCOME	410	864	920
TOTAL MINORITY INTEREST	5,787	5,871	6,708
TOTAL SHAREHOLDERS' EQUITY	19,309	24,692	25,529
RESERVES FOR RISKS AND CHARGES			
Reserve for pension and similar obligation	49	15	15
Reserves for taxes			
for taxes	154	159	159
for deferred taxes	35	67	201
Total reserves for taxes	189	226	360
Other reserves	2,815	1,358	1,393
TOTAL RESERVES FOR RISKS AND CHARGES	3,053	1,599	1,768
RESERVE FOR EMPLOYEE TERMINATION INDEMNITIES	1,350	1,319	1,319
LIABILITIES			
Debentures	8,003	733	1,668
Convertible debentures	2,500		
Due to banks	3,340	3,730	4,296
Due to other lenders	1,186	1,249	1,267
Advances		370	370
Trade accounts payable	155	32	35
Notes payable	221	50	50
Accounts payable to unconsolidated subsidiaries		6	6
Accounts payable to affiliated companies	474	506	506
Accounts payable to parent companies		1	2
Taxes payables	82	3	3
Contributions to pension and social security institutions	598	651	651
Other liabilities	178	553	583
TOTAL LIABILITIES	16,737	7,507	9,059
ACCRUED EXPENSES AND DEFERRED INCOME	1,476	1,178	1,217
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	62,670	61,985	65,515

(**) Amounts due beyond one year.

MEMORANDUM ACCOUNTS

(In millions of euro)

	12/31/2001	12/31/2000 (***)	12/31/2000 historical
GUARANTEES PROVIDED			
Sureties:			
on behalf of unconsolidated subsidiaries	20	20	20
on behalf of affiliated companies	1,041	2,319	2,315
on behalf of others	213	238	238
Total sureties	1,274	2,577	2,573
Endorsements:			
on behalf of others		168	168
Other guarantees:			
on behalf of unconsolidated subsidiaries	3	1	1
on behalf of affiliated companies	50	80	69
on behalf of others	95	120	120
Total other guarantees	148	201	190
TOTAL GUARANTEES PROVIDED	1,422	2,946	2,931
COLLATERAL PROVIDED			
For obligations of others	147	1	1
For own obligations, not including liabilities	16	2	2
TOTAL COLLATERAL PROVIDED	163	3	3
PURCHASES AND SALES COMMITMENTS	5,369	4,902	4,902
OTHER MEMORANDUM ACCOUNTS	287	234	234
TOTAL MEMORANDUM ACCOUNTS	7,241	8,085	8,070

(***) Restated balance sheet at December 31, 2000 giving effect to the valuation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

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■ CONSOLIDATED STATEMENTS OF INCOME

(in millions of euro)

	2001	2000 (*)	2000 historical
PRODUCTION VALUE			
Sales and service revenues	30,818	27,169	28,911
Changes in inventories of work in progress, semifinished and finished goods		25	28
Changes in inventory of contract work in process	(115)	251	251
Increases in capitalized internal construction costs	581	831	912
Other revenue and income:			
operating grants	24	20	20
other	393	382	406
Total other revenue and income	417	402	426
TOTAL PRODUCTION VALUE	31,701	28,678	30,528
PRODUCTION COST			
Raw materials, supplies and merchandise	(1,767)	(1,884)	(2,011)
Semifinished and finished goods	(205)	(248)	(248)
Services	(9,552)	(7,933)	(8,394)
Use of property not owned	(1,069)	(751)	(798)
Personnel			
wages and salaries	(3,355)	(3,323)	(3,510)
social security contributions	(993)	(1,077)	(1,128)
termination indemnities	(211)	(242)	(242)
other costs	(107)	(103)	(145)
Total personnel costs	(4,666)	(4,745)	(5,025)
Amortization, depreciation and writedowns			
amortization of intangible assets	(2,241)	(1,078)	(1,132)
depreciation of fixed assets	(4,034)	(4,131)	(4,515)
other writedowns of intangibles and fixed assets	(16)	(48)	(48)
writedowns of receivables included in current assets and liquid assets	(439)	(394)	(477)
Total amortization, depreciation and writedowns	(6,730)	(5,651)	(6,172)
Changes in inventory of raw materials, supplies and merchandise	57	(21)	(2)
Provisions for risks	(189)	(108)	(119)
Other provisions	(89)	(38)	(38)
Miscellaneous operating costs	(817)	(858)	(916)
TOTAL PRODUCTION COST	(25,027)	(22,237)	(23,723)
OPERATING INCOME	6,674	6,441	6,805
FINANCIAL INCOME AND EXPENSE			
Income from equity investments			
dividends from unconsolidated subsidiaries	9	4	4
dividends from affiliated companies		63	64
dividends from other companies	8	71	71
other income from equity investments	137	167	167
Total income from equity investments	154	305	306
Other financial income from			
accounts receivable included in long-term investments			
affiliated companies	7	9	9
other	16	9	10
Total accounts receivable included in long-term investments	23	18	19
securities, other than equity investments, included in long-term investments	3	1	1
securities, other than equity investments, included in current assets	135	99	104
other income			
interest and fees from unconsolidated subsidiaries	1	1	1
interest and fees from affiliated companies	16	16	14
interest and fees from others and miscellaneous income	744	366	402
Total other income	761	383	417
Total other financial income	922	501	541
Interest and other financial expense			
interest and fees paid to unconsolidated subsidiaries		(1)	(1)
interest and fees paid to affiliated companies	(31)	(33)	(33)
interest and fees paid to others and miscellaneous expense	(3,044)	(1,082)	(1,277)
Total interest and other financial expense	(3,075)	(1,116)	(1,311)
TOTAL FINANCIAL INCOME AND EXPENSE	(1,999)	(310)	(464)

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(in millions of euro)

	2001	2000 (*)	2000 historical
VALUE ADJUSTMENTS TO FINANCIAL ASSETS			
Upward adjustments of			
equity investments	167	297	275
Total upward adjustments	167	297	275
Writedowns of			
equity investments	(1,933)	(1,440)	(1,432)
long-term investments, other than equity investments	(49)		
securities, other than equity investments, included in current assets	(141)	(2)	(2)
Total writedowns	(2,123)	(1,442)	(1,434)
TOTAL VALUE ADJUSTMENTS	(1,956)	(1,145)	(1,159)
EXTRAORDINARY INCOME AND EXPENSE			
Income			
gains on disposals	392	1,146	1,146
miscellaneous	460	236	236
Total income	852	1,382	1,382
Expense			
losses on disposals	(46)	(13)	(12)
prior years' taxes	(5)	(5)	(5)
provisions and writedowns of equity investments	(2,983)		
miscellaneous	(1,270)	(1,548)	(1,579)
Total expense	(4,304)	(1,566)	(1,596)
TOTAL EXTRAORDINARY ITEMS	(3,452)	(184)	(214)
INCOME BEFORE TAXES	(733)	4,802	4,968
Income taxes			
current taxes	(1,186)	(2,390)	(2,486)
deferred taxes	261	480	466
Total income taxes	(925)	(1,910)	(2,020)
NET INCOME (LOSS) BEFORE MINORITY INTEREST	(1,658)	2,892	2,948
Minority interest	(410)	(864)	(920)
NET INCOME (LOSS)	(2,068)	2,028	2,028

(*) Restated statement of income for the year ended December 31, 2000 giving effect to the valuation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

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■ NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with the provisions of the Italian Civil Code and are also accompanied by the Report on the Group's operations together with the Report on Telecom Italia.

The consolidated statement of cash flows, although presented in the Report on Operations, constitutes an integral part of these Notes to consolidated financial statements pursuant to Article 29, Section 3 of Legislative Decree No. 127/1991.

The scope and principles of consolidation, the summary of significant accounting policies, along with the composition and changes in the individual components of the consolidated financial statements are set out below.

■ SCOPE OF CONSOLIDATION

The scope of the consolidation at December 31, 2001 includes the Italian and foreign companies listed in Annex 5, in which the Telecom Italia holds a majority of voting rights, and all other companies in which it exercises a dominant influence.

The companies in which Telecom Italia holds between a 20% and 50% investment in share capital, including jointly controlled companies, have been accounted for using the equity method.

Beginning from the financial statements for the year ended December 31, 2001, Nortel Inversora and the Telecom Argentina group (Nortel Inversora group), which in 2000 were consolidated proportionally as allowed by art. 37 of Legislative Decree No. 127/1991, have been accounted for using the equity method.

For purposes of comparison, the most important changes in the balance sheet and statement of income components are also shown in comparison to 2000 data which have been restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

The following changes have taken place in the scope of consolidation since December 31, 2000:

a) added to the scope of consolidation:

- for **Domestic Wireline**: the new companies set up during the year for the Latin American Nautilus and Mediterranean Nautilus projects, Telecom Italia Spain, TI Telecom Italia (Austria) Telekommunikationsdienste and Telecontact Center;
- for **Mobile Services**: TIM Brasil, TIM Celular Centro Sul (former-Blucel), TIM Sao Paulo (former-Starcel) and TIM Rio Norte (former-Unicel);
- for **Internet and Media**: the companies Free-Finance, Xoom.it, the groups Consodata, Telegate, TDL Infomedia and Holding Media e Comunicazione (former-Cecchi Gori Communications), NetCreations and some companies in the publishing and professional communications sector;
- for **International Operations**: Entel Chile group, and in the Jet Multimedia group, Victoire Multimedia, Victoire Multimedia Informatique;
- for **IT Services**: Webred and Netikos Finland;
- for **Satellite Services**: Telespazio North America and e-Geos;
- for **Telecom Italia Lab**: Loquendo, Telecom Italia Lab S.A., Telecom Italia Lab General Partner;
- for the "other" operations: ISM and N.V. Vertico.

Moreover, the groups Seat Pagine Gialle, Jet Multimedia, Mageos Explorer (former-Europe Explorer) and Maxitel and the companies Corporacion Digitel and Eustema, whose balance sheets only were consolidated at December 31, 2000, have now been fully consolidated line-by-line, including the statement of income.

a) eliminated from the scope of consolidation:

- for **Domestic Wireline**: TMI Hong Kong and TMI Hungary;
- for **Mobile Services**: U-Mobil;
- for **Internet and Media**: Polix, Consodata Interactive, Consodata Italia, Consodata Systeme, Living Lifestyle and companies in the Thomson Directories group;
- for **International Operations**: Nortel Inversora, Telecom Argentina group, Infoconcert and Iber Explorer;
- for **IT Services**: Bisiel, Aska, Jmac Consiel and Sit;
- for **Satellite Services**: Com.star, Iridium Italia and Telespazio Ireland.

Furthermore, in 2000, for the Sirti and Italtel groups, only their statements of income were consolidated since they were sold towards the end of the year.

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Annexes 6 and 7 list those subsidiaries excluded from consolidation for the following reasons: their inclusion would not have been material for purposes of a true and fair representation of the consolidated financial statements and/or because they were not operational or in liquidation.

At December 31, 2001, Telecom Italia's subsidiaries and affiliates listed in Annexes 5 to 7, were categorized as follows:

	Subsidiaries			Affiliates			Total
	Italy	Abroad	Total	Italy	Abroad	Total	
Companies:							
consolidated line-by-line	107	197	304				304
valued by the equity method	2	9	11	57	91	148	159
valued at cost	30	33	63	24	11	35	98
Total companies	139	239	378	81	102	183	561

■ SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements used for consolidation purposes are those of each consolidated company at December 31, 2001, approved by the respective boards, and adjusted where necessary to conform to the accounting principles adopted by the parent company Telecom Italia.

The financial statements expressed in foreign currency have been translated into euro by applying the average annual exchange rate to the individual items of the statement of income and the year-end exchange rate to the items of the balance sheet.

The difference arising from the translation of beginning shareholders' equity and the net result for the year at the year-end exchange rate is recorded in the reserves under consolidated shareholders' equity.

For the consolidated subsidiaries and affiliates which use inflation accounting to eliminate distorting effects on the results for the year, the statements of income have been translated at the year-end exchange rates instead of at the average rates. The companies in the Group which apply inflation accounting principles are Corporacion Digitel C.A. (Venezuela), Finsiel Romania S.r.l. (Romania) and IS TIM Telekomunikasyon Hizmetleri A.S. (Turkey).

As regards the evolution of the economic situation in Argentina, which led to significant exchange fluctuations after parity with the US dollar was abandoned, the financial statements expressed in Argentine pesos have been translated by applying the average exchange rate of Argentine peso 1 = US\$ 1 to the statement of income, except for exchange differences originating from items in currencies other than the peso that were translated in euro, at the same exchange rate as the balance sheet of Argentine peso 1.7 = US\$ 1.

The exchange rates used are those presented in "Other information".

All subsidiaries included in the scope of consolidation have been consolidated using the line-by-line method, which can be summarized as follows:

- assumption of the total amount of assets, liabilities, revenues and expenses, regardless of the interest held, separately showing the minority interest in shareholders' equity and net income;
- the difference arising from the elimination of the carrying value of an investment in a company included in the scope of consolidation against the underlying share of the shareholders' equity at the date of acquisition is allocated, where possible, to the assets and liabilities of the company. Any residual amount is treated as follows:
 - if positive, it is recorded in "consolidation difference" under "intangible assets" and is amortized on the straight-line method over the estimated time required to recover the amount and, in any case, not more than a period of 15 years;
 - if negative, it is recorded in shareholders' equity as "consolidation reserve", or, when the amount is due to expectations of unfavorable financial results, to "consolidation reserve for future risks and charges";
- elimination of receivables and payables, as well as expenses and revenues among consolidated companies;
- elimination of profit included in fixed assets and intangible assets which stem from intraGroup purchases of goods and services at market prices. The portion of intraGroup revenues referring to the above goods and services has been reclassified, net of intraGroup profit, to the item "increase in capitalized internal construction costs".

Provisions and value adjustments made by individual consolidated companies exclusively for the purpose of securing tax benefits allowed by law have also been eliminated from the consolidated financial statements.

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■ ACCOUNTING PRINCIPLES

The accounting principles adopted in preparing the consolidated financial statements conform to the law and have been applied on a basis consistent with the prior year.

The accounting principles are set out below:

■ Intangible assets

Intangible assets are recorded at acquisition or production cost and are amortized systematically over their estimated period of benefit. When full recovery of the investments is not expected, appropriate writedowns are made.

■ Fixed assets

Fixed assets are recorded at acquisition or production cost and depreciated on the straight-line method at rates determined on the basis of their estimated remaining useful life. They include inflation adjustments made on the basis of the law.

Fixed assets are written down when there is a permanent impairment to below their net book value. Such amount will be reversed in subsequent years if the underlying assumptions are no longer correct.

Construction in progress is stated at the amount of direct costs incurred.

■ Equity investments

Equity investments considered long-term in nature are recorded in long-term investments or, if acquired for subsequent sale, recorded in short-term financial assets.

Long-term equity investments in unconsolidated subsidiaries and affiliated companies are normally valued by the equity method; positive differences arising upon acquisition, between the carrying value of the investments in said companies and the underlying share of net equity at current values, are included in the value of the investments and amortized on the straight-line method over their expected period of recoverability and, in any case, for a period not exceeding 15 years. Such amortization is charged to the statement of income in "value adjustments to financial assets" under writedowns of investments.

Other long-term investments in unconsolidated subsidiaries are recorded at acquisition or subscription cost, including incidental costs, adjusted for any reasonable expectations of a decline in profitability or recoverability in future years.

In the case of a permanent impairment, the value of such investments is written down and the impairment in value in excess of the corresponding carrying value is recorded in "reserves for risks and charges".

Contracts for the loan of securities are represented in the financial statements as two functionally related transactions: a loan and a "repurchase transaction" on the securities with the obligation of the borrower to resell them at maturity. Accordingly, "Other receivables" and "Other liabilities" include, respectively, a receivable and a payable of the same amount at the fixed amount of the contract (market price of stock at the date of delivery of the securities).

Equity investments included under current assets, consisting mainly of shares of consolidated listed companies purchased for trading purposes, are stated at the lower of cost and realizable value, based on the year-end stock market prices.

Writedowns of investments, whether included in long-term investments or current assets, will be reversed in subsequent years if the underlying assumptions are no longer correct.

■ Other securities (other than equity investments)

Securities that the company intends to hold to maturity are included among long-term investments; those bought for trading purposes are listed under short-term financial assets.

Securities held as long-term investments are valued at cost, adjusted by any permanent impairment in value.

Securities included in current assets are valued at the lower of cost of acquisition and realizable value based on market prices.

Writedowns of securities will be reversed in subsequent years, if the underlying assumptions are no longer correct.

Securities acquired under "repurchase agreements", for which the obligation exists to resell them at maturity, are included at purchase cost in receivables under short-term financial assets. The difference between the sales price and the purchase price is allocated to income as it accrues with a contra-entry to accrued income/expense in the balance sheet.

■ Inventories

Inventories are valued at the lower of purchase or production cost and market.

The methods mainly used in computing cost are the following:

- raw materials and finished goods: LIFO with annual adjustments;
- merchandise: weighted average;
- work in progress and semifinished goods: production cost;

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- contract work in process:

- contracts covering less than 12 months: industrial cost;
- contracts covering more than one year: at estimated revenues using the percentage of completion method.

In determining the value of contract work in process, anticipated losses upon completion and any other risks are also taken into account. Inventories of raw materials, finished goods and merchandise which exceed foreseeable manufacturing requirements or have become obsolete are written down to their estimated realizable value.

■ Accounts receivable and liabilities

Receivables are stated at the estimated realizable value and classified under long-term investments or current assets. Liabilities are shown at their nominal value.

Accounts receivable and liabilities in foreign currency, based on the concept of prudence, are recorded at the year-end exchange rates. The positive and negative differences between the balance of accounts receivable and liabilities converted at year-end exchange rates and their balance at the original exchange rates are recorded in the statement of income, respectively, in "*financial income*" and "*financial expense*".

Receivables and payables in Argentine pesos are adjusted at the exchange rate of Argentine peso 1.7 = US\$ 1.

■ Accruals and deferrals

These items are recorded on the accrual basis.

■ Reserves for risks and charges

"*For taxes*": this reserve includes prudent provisions for estimated tax charges, including any surtaxes and late payment interest, on positions not yet agreed or in dispute.

"*For deferred taxes*": this reserve includes deferred taxes calculated on the timing differences of the individual consolidated companies between the value attributed to assets and liabilities for statutory purposes and the value attributed to the same assets and liabilities for tax purposes, as well as those generated by consolidation adjustments.

Deferred tax assets are recorded among "*other receivables*" in current assets.

Deferred tax assets and deferred tax liabilities are set off, whenever the assumptions for doing so exist.

Deferred taxes on reserves on which taxation has been deferred, regarding consolidated companies or companies valued by the equity method, are recorded when such reserves are expected to be distributed or otherwise used and their distribution or utilization will give rise to tax charges.

The tax benefit of tax loss carryforwards is recorded whenever there is reasonable expectation of realization.

"*Other reserves*" relate primarily to provisions to cover charges of certain or likely existence whose amount or date of occurrence could, however, not be determined at the end of the year. The provisions reflect the best possible estimate, based on the commitments made and on the available data.

■ Reserve for employee termination indemnities

The amount of this reserve is determined in accordance with current laws and collective bargaining agreements and includes the liability matured at the end of the year in favor of all personnel employed by the Italian consolidated companies, net of advances paid.

■ Employee benefit obligations under Law No. 58/1992

Employee benefit obligations, as required by Law No. 58/1992, are accounted for on a cash basis, as described in the notes to financial statements of the Telecom Italia. The remaining liability for such obligations, payable in fifteen deferred annual installments on the basis of the statement updated to December 31, 2001 by the National Social Security Institute (INPS) and according to its interpretation, amounts to euro 1,347 million, divided as follows:

- a) euro 910 million for the principal amount (except for the portion attributable to former Iritel employees);
- b) euro 437 million for accrued interest.

As regards pre-amortization interest and the related accrued interest, as described in the Notes to the financial statements of Telecom Italia, in compliance with the sentence handed down by the Court of Appeals, No. 4242 of April 5, 2000, payment (for a residual amount of euro 407 million) has been suspended as from June 2000.

The consolidated balance sheet also includes euro 656 million due to INPS, relating to the estimate for the employees of the former State Company for Telephone Services (ASST) made by the special Ministerial Commission established under Law No. 58/1992, upon the contribution of the assets of the Post and Telecommunications Administration to Iritel.

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The employee benefit obligations to guarantee uniform insurance status recorded in the consolidated statement of income for the year 2001 (under "extraordinary expense") amount to euro 155 million inclusive of accrued and pre-amortization interest.

■ Grants

Operating grants (directly credited to the statement of income) and capital grants or grants for installations are recorded in the accounting period in which the paperwork documenting the grants is received, or in the period in which the respective costs are incurred, provided that the certainty of payment is confirmed by established procedures.

Specifically, capital grants are recorded in deferred income and recognized in future years in the statement of income in relation to the amount of depreciation taken on the underlying assets to which the grants refer.

■ Revenues and expenses

Revenues and expenses are recorded on an accrual basis and recognized in the consolidated statement of income as follows:

- a) telecommunications services: in the year in which the services are rendered; in particular traffic revenues are shown gross of the amounts due to other carriers which are recorded, for the same amount, in production cost;
- bi) information technology and innovative network services, other activities: to the extent to which the connected services were rendered during the fiscal year.

■ Leased assets

Assets covered by finance lease contracts with a purchase option are recorded in fixed assets and depreciated from the date of the lease contract using rates consistent with those used for similarly owned assets. At the same time, a liability is recorded for the same amount, adjusted by the principal lease payments. The statement of income is charged for the financial expenses for the period and the depreciation charge on the assets acquired in leasing.

■ Income taxes

Current income taxes are computed on the basis of a realistic estimate of the income tax charge according to the tax laws of the country; the related income tax payable is shown net of payments on account, withholding taxes and tax credits in "income taxes payable". Any net receivable position is shown in "other receivables".

■ Memorandum accounts

"Collateral and guarantees provided" are recorded for an amount equal to the guarantee provided; those in foreign currencies are translated at year-end exchange rates.

"Purchases and sales commitments" are determined on the basis of the unperformed portion of contracts outstanding at the end of the fiscal year which do not fall under the normal "operating cycle".

"Other memorandum accounts" mainly refer to assets of third parties held by consolidated subsidiaries.

■ Financial derivatives

Financial derivative contracts are used by the Group to hedge exposure to interest rate and exchange rate risks. They are valued consistently with the underlying asset and liability positions and any net expenses connected with each single transaction are recognized in the statement of income.

For financial instruments used to hedge interest rate risks, the interest differentials are recorded in the statement of income in "financial income and expense" based on the accrual principle.

For financial instruments used to hedge exchange rate risks, the cost (or "financial component" calculated as the difference between the rate at the date of stipulating the contract and the forward rate) is recorded in the statement of income in "financial income and expense" based on the accrual principle.

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■ CONSOLIDATED BALANCE SHEETS

ASSETS

■ INTANGIBLES ASSETS

euro 16,197 million

(euro 16,037 million at December 31, 2000)

Intangible assets increased by euro 160 million compared to December 31, 2000. A breakdown of the composition and the changes in this account are provided below:

(in millions of euro)	12/31/2000	Deconsolidation Nortel Inv. group	12/31/2000 (*)	Additions	Amortization	Other changes	12/31/2001
Start-up and expansion costs	100	-	100	39	(36)	1	104
Industrial patents and intellectual property rights	819	(10)	809	483	(955)	937	1,274
Concessions, licenses, trademarks and similar rights	3,505	(190)	3,315	1,142	(84)	(66)	4,307
Goodwill	69	-	69	3	(12)	(13)	47
Consolidation difference	10,230	(128)	10,102	1,174	(1,022)	(1,160)	9,094
Work in progress and advances to suppliers	840	-	840	1,018	-	(984)	874
Other intangibles	474	(138)	336	51	(132)	242	497
Total	16,037	(466)	15,571	3,910	(2,241)	(1,043)	16,197

(*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

■ Start-up and expansion costs

Start-up and expansion costs refer primarily to registration fees paid when consolidated companies are established or when their capital is increased.

■ Industrial patents and intellectual property rights

Industrial patents and intellectual property rights consist mainly of applications software either owned outright or acquired under a license for an unspecified period of time.

■ Concessions, licenses, trademarks and similar rights

Concessions, licenses, trademarks and similar rights increased by euro 802 million mainly as a result of the acquisition of new licenses in Brazil and Greece (euro 1,080 million).

■ Consolidation difference

The *consolidation difference* decreased by euro 1,136 million since the end of 2000, mainly due to:

- writedowns to adjust the value of the following investments:

(in millions of euro)	
International operations of the International Operations BU	764
International operations of the Mobile Services BU	392
Operations of Internet and Media BU	147
Total	1,303

- amortization charge for the year (euro 1,022 million).

The remaining amount of euro 9,094 million mainly refers to Seat Pagine Gialle (euro 5,882 million), Entel Chile (euro 799 million), TIM (euro 798 million), Corporacion Digital (euro 337 million), TDL Infomedia (euro 310 million) and Holding Media e Comunicazione (euro 184 million).

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■ Work in progress and advances to suppliers

Work in progress and advances to suppliers increased by euro 34 million, compared to December 31, 2000, and represent the difference between the capitalization of costs incurred mainly by Telecom Italia for software development projects in progress and the projects which came into use during the year.

■ Other intangibles

Other intangibles, totaling euro 497 million (euro 474 million at December 31, 2000), include euro 231 million (euro 261 million at December 31, 2000) of leasehold improvements.

■ FIXED ASSETS

euro 21,757 million

(euro 23,425 million at December 31, 2000)

Fixed assets decreased by euro 1,668 million compared to the end of 2000. They are shown net of depreciation and writedowns and have been adjusted to eliminate intraGroup profits generated by purchases of internally produced goods and services by the Group. An analysis of fixed assets is provided in the following table:

(in millions of euro)	Owned assets			Leased assets			12/31/2001	12/31/2000 ^(*)	12/31/2000
	Gross value	Accumulated depreciation	Total	Gross value	Accumulated depreciation	Total	Total	Net book value	Net book value
Land and buildings	3,942	(1,514)	2,428	549	(100)	449	2,877	2,656	2,947
Plant and machinery	57,023	(40,404)	16,619	59	(29)	30	16,649	16,299	18,126
Manufacturing and distribution equipment	985	(912)	73	2	(2)	-	73	79	78
Other fixed assets	1,929	(1,287)	642	107	(18)	89	731	600	836
Construction in progress and advances to suppliers	1,345	-	1,345	82	-	82	1,427	1,087	1,438
Total	65,224	(44,117)	21,107	799	(149)	650	21,757	20,721	23,425

(*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

The gross value of fixed assets includes euro 1,301 million of monetary revaluations made by the Italian companies.

Accumulated depreciation covered 65.9% of gross fixed assets, compared to 68.5% at the end of last year.

A summary of the changes in fixed assets during the year is shown in the following table:

(in millions of euro)	2001	2000 ^(*)	2000
At January 1	20,721	23,508	23,508
Additions	4,254	3,405	3,889
Disposals	(172)	(95)	(103)
Sale of "Large Buildings" business segment		(2,392)	(2,392)
Depreciation for the year	(4,034)	(4,131)	(4,515)
Writedowns	(11)	(11)	(11)
Change in the scope of consolidation	1,345	367	2,978
Translation adjustment and other	(346)	70	71
At December 31	21,757	20,721	23,425

(*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

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Additions for the year amounted to euro 4,254 million (euro 3,889 million in 2000), with an increase of euro 365 million compared to 2000. Details by Business Unit are as follows:

(in millions of euro)	2001	2000 (*)	2000
Domestic Wireline	1,976	1,917	1,917
Mobile Services	1,547	1,194	1,194
Internet and Media	82	55	55
International Operations	427	95	579
IT Services	87	83	83
Satellite Services	27	29	29
Telecom Italia Lab	12	29	29
	4,158	3,402	3,886
Other operations and intraGroup eliminations	96	3	3
Total	4,254	3,405	3,889

(*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

■ LONG-TERM INVESTMENTS

euro 7,064 million

(euro 8,675 million at December 31, 2000)

Long-term investments, which decreased by euro 1,611 million from December 31, 2000, include the following:

(in millions of euro)	12/31/2001	12/31/2000 (*)	12/31/2000
Equity investments in:			
unconsolidated subsidiaries	18	21	21
affiliated companies	4,764	7,589	7,199
other companies	145	188	191
	4,927	7,798	7,411
Advances on future capital contributions	1,659	187	187
	6,586	7,985	7,598
Accounts receivable:			
unconsolidated subsidiaries	2	-	-
affiliated companies	117	127	127
other receivables	273	279	282
	392	406	409
Other securities	86	3	6
Treasury stock	-	662	662
Total	7,064	9,056	8,675

(*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

■ Equity investments in affiliated companies

Equity investments in affiliated companies, amounting to euro 4,764 million, decreased by euro 2,435 million since December 31, 2000 chiefly due to the consolidation of the Entel Chile group and the Holding Media e Comunicazione group and the writedown of foreign investment holdings according to the strategic guidelines of the plan recently drawn up by the new management.

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Equity investments in affiliated companies refer to the following:

(in millions of euro)	12/31/2000	Additions	Disposals	Change in scope of consolidation	Extraordinary writedowns	Valuation using equity method (*)	12/31/2001
Telekom Austria	1,819				(225)	(134)	1,460
Auna	509	460	(91)			(188)	690
GLB Serviços Interativos	809				(586)	(199)	24
Etec S.A.	538					13	551
Mobilkom Austria	586					(42)	544
Solpart Participações	461		(9)		(151)	(63)	238
Entel Chile	379			(379)			-
Nortel Inversora	-			390	(50)	(340)	-
Astrolink International	262					(262)	-
Eutelsat	216	39	(255)				-
Telekom Srbija	195						195
BDT	172					(14)	158
IM.SER	204		(75)			12	141
Netco Redes	135					(10)	125
Holding Media e Comunicazione	118			(118)			-
Mirror International Holding	-	334	(234)			(6)	94
Telemaco Immobiliare	-	76				15	91
IS TIM	353	148				(420)	81
Lottomatica	37					41	78
Italtel Holding	105					(40)	65
Stream	100	173				(241)	32
Mondus	57					(39)	18
Other	144	152	(47)		(66)	(4)	179
Total	7,199	1,382	(711)	(107)	(1,078)	(1,921)	4,764

(*) Includes the share of earnings or losses for the period, amortization of goodwill and adjustments on the translation of foreign currency financial statements.

The investments valued by the equity method include the unamortized portion (euro 1,688 million, against euro 2,915 million at December 31, 2000) of the excess of book values over the corresponding share of the underlying shareholders' equity at the time of purchase. The excess mainly refers to Telekom Austria (euro 677 million), Mobilkom Austria (euro 280 million), Auna (euro 253 million), BDT (euro 121 million), Etec S.A. (euro 106 million) and Netco Redes (euro 103 million).

A list of the companies valued by the equity method is provided in Annex 6; equity investments in unconsolidated subsidiaries and affiliates are listed in Annex 7.

■ Advances on future capital contributions

Mainly refer to advances made by Tim International to IS TIM.

■ Accounts receivable from affiliated companies

Mainly refer to loans made to foreign affiliates, in particular, to BDT (euro 108 million).

■ Other receivables

Included the revalued amount of the tax receivable from the prepayment of the tax on the reserve for employee severance indemnities (euro 112 million), loans to employees (euro 87 million), loans to other companies and security deposits.

■ Other securities

Increased by euro 80 million from December 31, 2000, mainly due to the investments made in the Wisequity S.p.A. closed mutual fund by Seat Pagine Gialle (euro 53 million).

■ Treasury stock

Telecom Italia No. 112,998,070 shares was cancelled subsequent to the bonus increase in share capital at the time the capital was re-denominated in euro.

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CURRENT ASSETS

■ INVENTORIES

euro 636 million

(euro 725 million at December 31, 2000)

Inventories include the following:

(in millions of euro)	12/31/2001	12/31/2000 (*)	12/31/2000
Raw materials and supplies	22	20	21
Merchandise	253	169	214
	275	189	235
Work in progress and semifinished goods	6	10	13
Finished goods	2	1	2
	8	11	15
Contract work in process	352	467	467
Advances to suppliers	1	8	8
	353	475	475
Total	636	675	725

(*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

Inventories are held by companies providing telecommunications services for euro 245 million (euro 233 million at December 31, 2000), companies providing information technology services for euro 229 million (euro 217 million at December 31, 2000) and companies in the satellite sector for euro 113 million (euro 224 million at December 31, 2000). "Raw materials and supplies and "work in progress and semifinished goods" are substantially in line with current costs.

■ ACCOUNTS RECEIVABLE

euro 13,027 million

(euro 11,883 million at December 31, 2000)

A breakdown of accounts receivable, which increased by euro 1,144 million, is provided below:

(in millions of euro)	12/31/2001	12/31/2000 (*)	12/31/2000
Trade accounts receivable	8,712	8,208	8,737
- allowance for doubtful accounts	(808)	(671)	(740)
Total trade accounts receivable	7,904	7,537	7,997
Accounts receivable from unconsolidated subsidiaries	31	41	41
Accounts receivable from affiliated companies	567	435	413
Accounts receivable from parent companies	1	2	3
Other receivables	4,524	3,364	3,429
Total	13,027	11,379	11,883

(*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

■ Trade accounts receivable

Gross **trade accounts receivable** totaled euro 8,712 million and consist, for the most part, of receivables for telecommunications services. Receivables have been adjusted to estimated realizable value by writedowns and they, too, refer mostly to telecommunications companies. Trade accounts receivable refer, in particular, to Telecom Italia (euro 4,242 million), TIM (euro 917 million) and Seat Pagine Gialle group (euro 885 million).

This caption also includes euro 1,610 million of receivables from other telecommunications carriers and euro 122 million of services to be performed by Seat Pagine Gialle representing the advertising commitments undertaken and invoiced by the company for directories that will be published in 2002. The same amount is recorded in other liabilities.

Furthermore, the securitization of receivables by Telecom Italia led to a reduction in trade accounts receivable at December 31, of euro 877 million, of which euro 684 million were not yet due.

During 2001, TIM sold trade accounts receivable under factoring arrangements for euro 3,297 million. At December 31, 2001, receivables sold and not yet due totaled euro 106 million.

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■ Accounts receivable from unconsolidated subsidiaries

Include loans of euro 7 million and trade accounts receivables from subsidiary companies of euro 10 million.

■ Accounts receivable from affiliated companies

Increase of euro 154 million and they refer to financial receivables for euro 206 million, and trade and other receivables for euro 361 million. Financial receivables mainly refer to Stream (euro 122 million), IS TIM (euro 29 million) and Telekom Srbija (euro 23 million), while trade and other receivables chiefly refer to the Auna group (euro 90 million), Stream (euro 82 million), Telekom Srbija (euro 56 million), Telecom Argentina (euro 21 million) and Teleleasing (euro 18 million).

■ Other receivables

Included the following:

- financial receivables of euro 591 million (euro 935 million at December 31, 2000), almost entirely in reference to the loan of securities by Telecom Italia, covered by the specific guarantee contracts;
- other receivables totaling euro 3,933 million (euro 2,494 million at December 31, 2000), which referred to the following:

(in millions of euro)	12/31/2001	12/31/2000
Government and other public entities for subsidies and grants	45	42
Customer payments in transit	210	187
Receivables from the Tax Administration	1,544	576
Deferred tax assets	1,410	996
Receivables relating to personnel	93	79
Other receivables (from the Government, other public entities and other miscellaneous items) in transit	631	614
Total	3,933	2,494

Net deferred tax assets are composed as follows:

(in millions of euro)	12/31/2001	12/31/2000
Deferred tax assets	1,410	996
Reserve for deferred taxes	(35)	(201)
Total	1,375	795

Deferred tax assets mainly refer to the writedowns of receivables and the reserves for risks and charges; deferred tax liabilities mainly originated from gains.

No deferred tax assets have been set aside because of uncertainty over their recoverability against future taxable profits. In particular, tax loss carryforwards, which have not been considered in the determination of deferred tax assets, amount to some euro 5,970 million, of which about euro 2,256 million can be utilized under the known circumstances.

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■ SHORT-TERM FINANCIAL ASSETS

euro 2,194 million

(euro 2,457 million at December 31, 2000)

This item, which decreased by euro 263 million compared to December 31, 2000, includes the following:

(in millions of euro)	12/31/2001	12/31/2000 (*)	12/31/2000
Equity investments in unconsolidated subsidiaries	247	392	392
Equity investments in affiliated companies	-	6	6
Other equity investments	9	38	38
Other securities	1,935	1,869	2,020
Receivables for sale of securities	3	1	1
Total	2,194	2,306	2,457

(*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

Equity investments refer mainly to listed shares purchased for trading.

■ Other securities

Other securities, which consist almost entirely of government securities and bonds, decreased by euro 85 million compared to December 31, 2000.

The carrying values of both equity investments and other securities have been adjusted by euro 291 million to approximate market values at year end.

■ LIQUID ASSETS

euro 762 million

(euro 1,304 million at December 31, 2000)

Liquid assets decreased by euro 542 million. They consist mainly of funds on deposit in Italian and foreign banks on current accounts.

ACCRUED INCOME AND PREPAID EXPENSES

euro 1,032 million

(euro 1,007 million at December 31, 2000)

This item, which increased by euro 25 million, can be analyzed as follows:

(in millions of euro)	12/31/2001	12/31/2000 (*)	12/31/2000
Issue discounts and similar charges	94	2	2
Accrued income:			
- production value	95	12	12
- financial income	57	60	60
- other	-	-	-
Total accrued income	152	72	72
Other prepaid expenses:			
- production costs	127	83	100
- financial expense	60	77	77
- other	599	756	756
Total other prepaid expenses	786	916	933
Accrued income and other prepaid expenses	938	988	1,005
Total	1,032	990	1,007

(*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

Other prepaid expenses decreased primarily as a result of the charge to the statement of income for the portion of expenses on the deferral of the put option on Seat Pagine Gialle shares referring to the current year.

An analysis of accounts receivable and accrued income by maturity and type is provided in Annex 1.

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■ LIABILITIES AND SHAREHOLDERS' EQUITY

SHAREHOLDERS' EQUITY

(euro 25,529 million at December 31, 2000)

euro 19,309 million

A breakdown of shareholders' equity is presented below:

(in millions of euro)	12/31/2001	12/31/2000 (*)	12/31/2000
Parent company interest	13,522	18,821	18,821
Minority interest	5,787	5,871	6,708
Total	19,309	24,692	25,529

(*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

Telecom Italia's interest in shareholders' equity decreased by euro 5,299 million compared to December 31, 2000. The reduction was due mainly to the payment of the dividends relating to the fiscal year 2000 (euro 2,309 million), the net result for the year (- euro 2,068 million), the cancellation of No. 112,998,070 savings shares of treasury stock by Telecom Italia at the time of the re-denomination of share capital in euro (euro 662 million at December 31, 2000 in addition to euro 49 million for purchases in the early months of 2001) as well as the decrease in the net equities of some foreign companies as a result of the unfavorable trend of the local currency against the euro.

■ SHARE CAPITAL

The *share capital of Telecom Italia* consists of 5,261,533,481 ordinary shares and 2,053,122,025 savings shares, both with a par value of euro 0.55 each.

■ PARENT COMPANY INTEREST IN RESERVES AND RETAINED EARNINGS

Parent company interest in reserves and retained earnings includes Telecom Italia's own retained earnings and reserves, as well as the consolidated companies' retained earnings and inflation adjustment reserves and tax-deferred reserves. No deferred taxes have been provided on the latter reserves since, based on current plans, no transactions are expected to be entered into that would warrant taxation.

The reconciliation of Telecom Italia's financial statements with the consolidated financial statements as regards shareholders' equity and net result for the year, and the changes in the components of consolidated shareholders' equity, are provided in Annexes 3 and 4.

RESERVES FOR RISKS AND CHARGES

(euro 1,768 million at December 31, 2000)

euro 3,053 million

These reserves increased by euro 1,285 million from December 31, 2000 and refer to the following:

■ Reserve for taxes

Amounting to euro 154 million, mainly consists of estimated tax liabilities on positions still to be agreed or in dispute;

■ Reserve for deferred taxes

Amounting to euro 35 million (- euro 166 million compared to December 31, 2000), includes deferred taxes provided by the individual consolidated companies on the income components subject to deferred taxation and on consolidation adjustments; the reserve practically shows a nil balance;

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■ Other reserves

Amounting to euro 2,815 million, increased by euro 1,422 million compared to December 31, 2000.

They include:

- the reserve for the losses of subsidiaries and affiliates of euro 603 million for extraordinary provisions set aside on the basis of the strategic guidelines of recent plans;
- the reserve for forward purchase commitments regarding Seat Pagine Gialle shares of euro 569 million provided to cover the estimate of the nonrecoverability of the original price to exercise the option;
- the reserves for contractual risks and other risks of Telecom Italia for a total of euro 590 million provided in previous years and in the current year, relating to the contribution of the business segment "Large Buildings", the sales of Italtel and Sirti, the sale of the satellite consortiums and the agreement with Vivendi/CanalPlus for transfer of the investment in Stream;
- the reserves for the technological revisions and risks inherent to the regulatory framework of TIM for euro 465 million.

RESERVE FOR EMPLOYEE TERMINATION INDEMNITIES

euro 1,350 million

(euro 1,319 million at December 31, 2000)

A breakdown of the changes during the year is provided below:

(in millions of euro)

At January 1, 2001	1,319
Change during year:	
- provisions charged to income	211
- utilization for:	
indemnities paid to employees	(127)
advances	(18)
- other changes	(35)
At December 31, 2001	1,350

"Other changes" mainly refer to the change in the scope of consolidation.

LIABILITIES

euro 37,482 million

(euro 35,682 million at December 31, 2000)

A breakdown of liabilities, which increased by euro 1,800 million from December 31, 2000, is as follows:

(in millions of euro)	12/31/2001		12/31/2000 ^(*)		12/31/2000	
	Financial payables	Trade accounts payable and other payables	Financial payables	Trade accounts payable and other payables	Financial payables	Trade accounts payable and other payables
Debentures	8,183	-	814	-	1,814	-
Convertible debentures	2,500	-	-	-	-	-
Due to banks	10,235	-	15,980	-	16,796	-
Due to other lenders	2,163	-	1,650	-	1,689	-
Advances	-	388	-	370	-	370
Trade accounts payable	168	6,058	272	6,079	272	6,509
Notes payable	220	1	50	-	50	-
Accounts payable to unconsolidated subsidiaries	17	8	-	6	-	6
Accounts payable to affiliated companies	553	349	692	585	691	581
Accounts payable to parent companies	-	1	-	1	-	2
Taxes payable	50	872	-	898	-	930
Contributions to pension and social security institutions	-	865	-	932	-	934
Other liabilities	1,108	3,743	2,020	2,848	2,092	2,946
Total	25,197	12,285	21,478	11,719	23,404	12,278

(*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

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■ Debentures

Debentures, which totaled euro 8,183 million and increased by euro 6,369 million from December 31, 2000, include the following:

- on April 10, 2001, notes were issued by Sogerim on international markets for euro 6,000 million. The issue was divided in three tranches: the first, equal to euro 1,000 million of floating rate notes, maturing on April 20, 2004; the second, equal to euro 3,000 million of fixed-rate notes, maturing on April 20, 2006; the third, equal to euro 2,000 million of fixed-rate notes, maturing on April 20, 2011.
- on December 21, 2001, Telecom Italia issued floating rate notes of euro 1,500 million (this is the first issue under the Global Medium-Term Note Program with Telecom Italia as the issuer). The maturity date is June 21, 2005 and the issuer can call in the notes at an earlier date at the face value beginning from the second year and at every coupon date for interest thereafter.
- notes maturing in 2003 issued by the Brazilian companies Tele Nordeste Celular and Tele Celular Sul for euro 196 million;
- notes maturing between 2002 and 2021 issued by Entel Chile for euro 102 million;
- notes maturing in 2002 issued by Softe through various financial institutions for a total of euro 174 million;
- notes maturing between 2009 and 2010 issued by the TDL Infomedia Ltd group for euro 211 million.

■ Convertible debentures

Include notes issued by Sogerim for euro 2,500 million convertible into TIM or Seat Pagine Gialle shares, with the right of issuer to pay off the amount due in cash. These are five-year notes and can be redeemed by the noteholders before maturity at the end of the third year after issue.

■ Due to banks

Of euro 10,235 million, are secured by mortgages for euro 37 million and liens and pledges for euro 686 million; they decreased, compared to December 31, 2000, by euro 6,561 million.

■ Due to other lenders

Of euro 2,163 million, increased by euro 474 million compared to December 31, 2000. They refer to loans payable to Cassa Depositi e Prestiti and IRI by Telecom Italia (euro 489 million), loans payable by Seat Pagine Gialle (euro 780 million) to Seat Pagine Gialle Finance S.r.l., a corporate vehicle, entirely owned by third parties, operating under Law No. 130/99 on securitization and a payable by Softe (euro 600 million) to Olivetti Finance N.V. negotiated on December 28, 2001 and due on May 28, 2002.

■ Advances

Advances, which totaled euro 388 million, increased by euro 18 million compared to December 31, 2000 and include advances received from customers of euro 311 million (of which euro 85 million is from Consorzio Telcal) and installment billings of euro 77 million.

■ Trade accounts payable

Of euro 6,226 million decreased by euro 555 million from December 31, 2000, mainly as a result of the reduction in payables by Telecom Italia (- euro 592 million). An amount of euro 131 million of these payables are secured by pledges on Maxitel shares, owned by TIM International and Bitel, and liens on installations guaranteeing the supply contracts with Ericsson. This item also includes euro 743 million of amounts due to other telecommunications operators.

■ Notes payable

Of euro 221 million, increased by euro 171 million and refer to the investment certificates issued by Seat Pagine Gialle as part of the securitization transaction.

■ Accounts payable to affiliated companies

Of euro 902 million, decreased by euro 370 million compared to the end of 2000. They include financial payables for euro 553 million, mainly to Teleleasing (euro 522 million) for financial lease contracts. Trade accounts payable and other payables amount to euro 349 million and are due to the Italtel group (euro 173 million), Siemens Informatica (euro 51 million) and Teleleasing (euro 42 million).

■ Taxes payable

Of euro 922 million decreased by euro 8 million compared to December 31, 2000. Taxes payable include euro 150 million for income taxes and euro 722 million for indirect taxes and withholding taxes paid by the companies as substitute taxpayers, as well as euro 50 million for medium/long-term financial debt relating to the agreement reached with the Tax Administration over the assessments received in 2001 by Telecom Italia.

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■ Contributions to pension and social security institutions

Of euro 865 million, decreased by euro 69 million compared to December 31, 2000; they include amounts owed to social security and health institutions. This item includes euro 656 million payable to INPS for the remaining balance of the estimated charges assessed for employees of the former ASST pursuant to Law No. 58/1992.

■ Other liabilities

Of euro 4,851 million, decreased by euro 187 million compared to December 31, 2000. A breakdown is provided below:

(in millions of euro)	12/31/2001	12/31/2000
Customer-related items	1,650	1,684
Residual amounts due for equity investments	-	163
Employee-related items	631	805
Telecommunications license fee	1,034	615
Other financial items	1,108	1,536
Other recurring and miscellaneous items (contra-entries for accrued costs, accrued interest expense at December 31 and payable the following year, sundry payables, etc.)	428	235
Total	4,851	5,038

In particular, customer-related items consist of deposits paid by customers and pre-billed basic subscriber charges (mainly for January and February), as well as prepaid traffic. The item also includes other liabilities for services to be performed by Seat Pagine Gialle (euro 122 million). The financial items payable refer to Telecom Italia for euro 395 million, including the transaction for the loan of securities (euro 236 million), and also the TIM group for euro 670 million, relating to the remaining amounts payable on the UMTS licenses acquired in Italy and Greece and the PCS licenses in Brazil.

ACCRUED EXPENSES AND DEFERRED INCOME

euro 1,476 million

(euro 1,217 million at December 31, 2000)

A breakdown of accrued expenses and deferred income, which increased by euro 259 million over December 31, 2000, is as follows:

(in millions of euro)	12/31/2001	12/31/2000 (*)	12/31/2000
Accrued expenses:			
- production costs	51	43	43
- financial expense	352	146	185
- other charges	-	-	-
Total accrued expenses	403	189	228
Deferred income:			
- capital grants (unavailable amount)	349	426	426
- production value	452	342	342
- financial income	14	11	11
- other income	258	210	210
Total deferred income	1,073	989	989
Total	1,476	1,178	1,217

(*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

An analysis of liabilities and accrued expenses by maturity and type is provided in Annex 2.

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■ MEMORANDUM ACCOUNTS

Memorandum accounts at December 31, 2001 total euro 7,241 million and decreased, compared to December 31, 2000, by euro 829 million.

Memorandum accounts are detailed as follows:

(in millions of euro)	12/31/2001	12/31/2000
Guarantees provided	1,422	2,931
Collateral provided	163	3
Purchases and sales commitments	5,369	4,902
Other memorandum accounts	287	234
Total	7,241	8,070

■ GUARANTEES PROVIDED

Guarantees provided, net of counter-guarantees received of euro 567 million, total euro 1,422 million and mainly consist of sureties provided by the Telecom Italia and TIM on behalf of affiliated companies and others for medium/long-term loan transactions and guarantees on bids to acquire fixed line and mobile licenses abroad.

■ COLLATERAL PROVIDED

Collateral provided of euro 163 million refers to liens and mortgages on the assets of the companies included in consolidation. In particular, the collateral includes IS TIM shares pledged as guarantees by TIM International for the performance of the obligations covered by the supply contracts signed by IS TIM with Ericsson and Siemens.

■ PURCHASES AND SALES COMMITMENTS

Purchases and sales commitments outstanding at the end of the year of, respectively, euro 3,305 million (euro 4,826 million at December 31, 2000) and euro 2,064 million (euro 76 million at December 31, 2000), refer to commitments which do not fall within the normal operating cycle of the individual consolidated companies.

In particular, the purchases commitments refer to:

- Telecom Italia's commitment for the put option on Seat Pagine Gialle shares (euro 2,985 million); at the expiration date the purchase of Seat Pagine Gialle shares will require an entry to record the difference on consolidation equal to the purchase cost, recorded in commitments, less the underlying share of net equity at current values at that date.
At December 31, 2001, the valuation of the forward purchase commitment of Seat Pagine Gialle shares led to a provision in the reserves for risks and charges (other reserves) of euro 569 million to cover the estimated nonrecoverability of the original price to exercise the option. This provision is in line with the cost deriving from the revised strike price (from euro 4.2 to euro 3.4 per share) after the put and call options were renegotiated with JPMorgan Chase on February 25, 2002. This is described in a note to the statutory financial statements of Telecom Italia, to which reference should be made.
- contractual commitment by Telecom Italia Lab S.A. (euro 113 million) to pay the remaining amounts subscribed to but not yet paid to four mutual funds specialized in financing emerging companies in telecommunication, Internet, Intranet and Broadband networks. The reduction of euro 1,521 million from December 31, 2000 is relative to the purchase of Entel Chile for euro 959 million during the first months of 2001 and Seat Pagine Gialle's commitment to purchase 40% of Webfin S.p.A. for euro 700 million which is no longer considered to exist because of the excessive expense which arose as a result of the unexpected loss in value of the company which operates in the Internet sector.

The sales commitments include the Group's commitment for the sale of the investment in the Spanish company Auna (euro 1,999 million).

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■ OTHER MEMORANDUM ACCOUNTS

Other memorandum accounts of euro 287 million refer mainly to third-party assets held by the individual consolidated companies, mainly those in the information technology sector.

Furthermore:

- the consolidated companies of the Group issued weak letters of patronage totaling euro 241 million chiefly on behalf of unconsolidated subsidiaries and affiliated companies to guarantee insurance policies, lines of credit and overdraft arrangements;
- assets held by third parties on loan, on deposit for safekeeping or for similar purposes amounted to euro 360 million and consist mainly of equipment leased to customers;
- collateral received amounted to euro 7 million;
- guarantees received amounted to euro 68 million;
- guarantees provided by others for obligations of the Group companies, which consist primarily of sureties to guarantee the performance of non-financial contractual obligations, totaled euro 608 million. They comprise euro 207 million for the surety policy replacing the security deposit for contracts with public agencies, issued by Fondiaria Assicurazioni S.p.A. on behalf of Raggruppamento Temporaneo di Imprese, of which Finsiel is the principal on behalf of the guaranteed agency (MIPAF – Ministero delle Politiche Agricole and Forestali) after having won the bid for the contract;
- the value of the stock of employees and private shareholders deposited on December 31, 2001 at the listed companies of the Group amounted to about euro 230 million;
- the total amount of Telecom Italia commitments at December 31, 2001 for building rental obligations to be paid to IM.SER under 21-year contracts was euro 3,678 million. The commitment from 2002 to 2006 is euro 185 million per year.

■ FINANCIAL DERIVATIVES

The Group uses derivatives mainly for the management of its debt positions, primarily interest rate swaps (IRS) and interest rate options (IRO) to reduce the interest rate exposure on fixed-rate and floating-rate bank loans and bonds, and cross-currency & interest rate swaps (CIRS) and currency forwards to convert various currency loans – mainly in US dollar and euro – into the functional currencies of the various subsidiaries.

The following table gives a description of the financial derivative contracts used to hedge medium/long-term debt positions of the Group, outstanding at December 31, 2001.

(In millions of euro)	Notional amount/ Capital exchanged at 12/31/2001
Interest rate swaps and interest rate options	5,979
Cross currency and interest rate swaps	1,847

IRSs and IROs involve or can involve the exchange of flows of interest calculated on the notional amount of reference at the agreed fixed or variable rates at the specified maturity date with the counterparts. This amount does not represent the amount exchanged between the parties and therefore does not constitute a measure of exposure to credit risk, which is instead limited to the amount of interest or interest differentials to be received at the interest date.

The same also applies to CIRSs which involve the exchange of capital, in the respective currencies of denomination, in addition to the settlement of periodic interest flows, at maturity and eventually at another date.

Furthermore, the counterparts to derivative contracts are only the best rated banks and financial institutions and continually monitored in order to minimize the risk of non-performance.

Besides the derivative contracts concluded as part of the management of debt exposure, at December 31, 2001, there were IRSs and CIRSs at the Luxembourg subsidiary Softe to hedge investments in notes and for cash management purposes for a principal amount of euro 2,084 million. Lastly, the subsidiary Sogerim has entered into transactions to hedge funds for cash management purposes for a principal amount of euro 368 million.

Finally, at December 31, 2001, Telecom Italia is carrying transactions to hedge interest rate and exchange risks on short-term loans for a total of euro 311 million, using forward rate agreements for euro 300 million and currency forwards for euro 11 million.

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■ CONSOLIDATED STATEMENTS OF INCOME

PRODUCTION VALUE

euro 31,701 million

(euro 30,528 million in 2000)

Production value increased by euro 1,173 million (+3.8%; +10.6% compared to 2000, restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method). The main components of production value are described in the following paragraphs.

■ Sales and service revenues

Amount to euro 30,818 million and show an increase of euro 1,907 million over 2000 (+6.6%; +13.4% compared to 2000, restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method). This growth is due to the positive performance of mobile telephone services and the contribution made by the new companies that were added to the scope of consolidation, in particular, the Entel Chile group (euro 1,247 million) and the Seat Pagine Gialle group (euro 1,707 million), which was partly offset by the exclusion from the scope of consolidation of the Nortel Inversora group and the companies in the manufacturing and installations sectors. A breakdown by Business Unit is presented below:

(In millions of euro)	2001 (a)	2000 (*) (b)	2000 (c)	Change	
				Amount (a)-(c)	%
Domestic Wireline	17,291	17,514	17,514	(223)	(1.3)
Mobile Services	10,250	9,418	9,418	832	8.8
Internet and Media	1,957	263	263	1,694	°
International Operations	1,879	505	2,292	(413)	(18.0)
IT Services	2,033	2,138	2,138	(105)	(4.9)
Satellite Services	648	340	340	308	90.6
Telecom Italia Lab	134	123	123	11	8.9
	34,192	30,301	32,088	2,104	6.6
Other operations and IntraGroup eliminations	(3,374)	(3,132)	(3,177)	(197)	6.2
Consolidated Group revenues	30,818	27,169	28,911	1,907	6.6

(*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

Revenues from telecommunications services are shown gross of the amount due to other carriers of euro 3,714 million (euro 2,790 million in 2000).

Revenues from foreign operations totaled euro 5,955 million (euro 5,874 million in 2000).

■ Increases in capitalized internal construction costs

Totaled euro 581 million, with a decrease of euro 331 million, compared to 2000; they may be analyzed as follows:

(In millions of euro)	2001	2000 (*)	2000	Change
intragroup revenues from sales of systems	549	805	843	(294)
- personnel	14	13	23	
- financial expenses	3	9	41	
- materials and other costs	15 32	4 26	5 69	(37)
Total	581	831	912	(331)

(*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

The financial expenses were charged to "construction in progress and advances to suppliers" in fixed assets.

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■ Other revenues and income

Of euro 417 million (euro 426 million in 2000) include the following:

(In millions of euro)	2001	2000 (*)	2000	Change
- operating grants	24	20	20	4
- gains on disposal of intangibles and fixed assets	12	8	10	2
- portion of capital grants recorded in income	73	72	72	1
- other income	308	302	324	(16)
Total	417	402	426	(9)

(*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

In particular:

- operating grants refer chiefly to the amounts bestowed by public institutions to defray the costs incurred for research, development and technological innovation;
- the portion of capital grants recorded in income represents the portion that became available during the year;
- other income from operations mainly includes charges to customers of the telecommunications services companies for the late payment of telephone bills (euro 112 million compared to euro 110 million in 2000).

PRODUCTION COST

(euro 23,723 million in 2000)

euro 25,027 million

Production cost increased by euro 1,304 million compared to 2000 (+5.5%; +12.5% compared to 2000, restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method). The main components of production value are described in the following paragraphs.

■ Raw materials, supplies and merchandise and costs for semifinished and finished goods

Raw materials, supplies and merchandise total euro 1,767 million (euro 2,011 million in 2000) and *semifinished and finished goods* amount to euro 205 million (euro 248 million in 2000). These costs, which represent purchases of raw materials and other goods to be used in operations, decreased by euro 287 million.

■ Services costs and cost for the use of property not owned

Services costs total euro 9,552 million (euro 8,394 million in 2000) and *cost for the use of property not owned* are euro 1,069 million (euro 798 million in 2000). Overall, these two items increased by euro 1,429 million, mainly due to the higher costs for the operation and development of mobile telecommunications (euro 516 million), higher costs sustained by Telecom Italia on the rentals of the buildings sold to IM.SER (euro 252 million) and the change in the scope of consolidation.

■ Personnel costs

Amount to euro 4,666 million (euro 5,025 million in 2000), including euro 3,546 million relating to companies which provide telecommunications services. The average cost per capita for the Group was euro 43 thousand (euro 40 thousand in 2000).

At December 31, 2001, employees of the Group numbered 109,956 (114,669 at December 31, 2000, 107,171 at December 31, 2000, restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method). This is a reduction of 4,713 owing to personnel turnover, particularly at Telecom Italia, and the effect of the change in the scope of consolidation. A breakdown of personnel by business unit is presented as follows:

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	12/31/2001	12/31/2000 (*)	12/31/2000	Change
Domestic Wireline	58,406	62,782	62,782	(4,376)
Mobile Services	16,721	15,257	15,257	1,464
International Operations	7,307	2,572	10,070	(2,763)
Internet and Media	9,264	7,515	7,515	1,749
IT Services	11,288	12,005	12,005	(717)
Satellite Services	1,196	1,206	1,206	(10)
Telecom Italia Lab	1,422	1,287	1,287	135
Other operations	4,352	4,547	4,547	(195)
Total	109,956	107,171	114,669	(4,713)

(*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

The equivalent average number of salaried employees was 107,491 in 2001 (124,696 in 2000).

A breakdown by category follows:

	2001
Executives	2,454
Middle management	6,379
Clerical staff	89,066
Technicians	9,592
Total	107,491

■ Amortization, depreciation and writedowns

Amounted to euro 6,730 million (euro 6,172 million in 2000), with an increase of euro 558 million. Details are as follows:

Amortization of intangible assets

Of euro 2,241 million, compared to euro 1,132 million in 2000, with an increase of euro 1,109 million. The change is due to a higher amortization charge for goodwill (+euro 842 million, of which euro 574 million relate to the acquisition of Seat Pagine Gialle, euro 102 million to the acquisition of Jet Multimedia and euro 99 million to the companies in the Seat Pagine Gialle group);

Depreciation of fixed assets

Of euro 4,034 million, compared to euro 4,515 million in 2000, with a decrease of euro 481 million. A breakdown of depreciation expense by asset category is provided below:

(in millions of euro)	2001	2000 (*)	2000	Change
Nonindustrial and industrial buildings	152	249	265	(113)
Plant and machinery	3,542	3,542	3,844	(302)
Manufacturing and distribution equipment	34	49	49	(15)
Other fixed assets	306	291	357	(51)
Total	4,034	4,131	4,515	(481)

(*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

Depreciation decreased as a result of the change in the scope of consolidation, a reduction in the depreciation expense of Telecom Italia (euro 415 million), owing to a lower amount of depreciable assets following the contribution of assets to IM.SER, and a change in the mix of depreciable assets.

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Other writedowns of intangibles and fixed assets
Totalled euro 16 million (euro 48 million in 2000).

Writedowns of receivables included in current assets and liquid assets

Of euro 439 million (euro 477 million in 2000) and represent the provisions made during the year to adjust receivables to their estimated realizable value.

■ Provisions for risks and other provisions

Totalled euro 278 million (euro 157 million in 2000) and consist of provisions made during the year to the various reserves for contractual risks and pending disputes.

■ Miscellaneous operating costs

Amounted to euro 817 million compared to euro 916 million in 2000. They refer to the following:

(in millions of euro)	2001	2000 (*)	2000
- TLC license fee	524	543	572
- losses on disposal of intangibles and fixed assets	29	52	52
- indirect duties and annual taxes, including the local property tax (I.C.I.)	120	116	139
- membership dues and other costs	144	147	153
Total	817	858	916

(*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

FINANCIAL INCOME AND EXPENSE

(- euro 464 million in 2000)

- euro 1,999 million

Financial income and expense shows a net financial expense balance referring to the following items:

(in millions of euro)	2001	2000 (*)	2000	Change
Income from equity investments, net	154	305	302	(148)
Other financial income	922	501	541	381
Interest and other financial expense	(3,075)	(1,116)	(1,307)	(1,768)
Total	(1,999)	(310)	(464)	(1,535)

(*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

■ Income from equity investments, net

Totalled euro 154 million (euro 302 million in 2000); this item includes dividends from unconsolidated companies and a gain realized on the sale of listed stocks that were carried in current assets.

■ Other financial income

Of euro 922 million (euro 541 million in 2000) includes the following:

(in millions of euro)	2001	2000 (*)	2000	Change
Interest and capital gains on fixed-income securities	138	99	105	33
Interest and fees from:				
- unconsolidated subsidiaries	1	1	1	
- affiliated companies	23	25	23	
- banks	110	57	74	
- customers	2	3	3	
Foreign exchange gains	217	195	196	21
Other financial income	431	121	139	292
Total	922	501	541	381

(*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

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Interest and capital gains on fixed-income securities refer to interest on long-term investment securities for euro 3 million (euro 1 million in 2000) and interest and capital gains on marketable securities for euro 135 million (euro 104 million in 2000).

"Other" includes euro 298 million of income on hedging contracts and income from the application of inflation accounting principles.

■ Interest and other financial expense

Interest and other financial expense of euro 3,075 million (euro 1,307 million in 2000) can be analyzed as follows:

(in millions of euro)	2001	2000 (*)	2000	Change
Interest and fees paid to:				
- unconsolidated subsidiaries		1	1	
- affiliated companies	31	33	33	
- banks	815	619	678	
- suppliers and other lenders	165 1,011	74 727	91 803	208
Interest and other charges on note issues	449	35	148	301
Foreign exchange losses	348	175	175	173
Other financial expense	1.267	179	181	1,086
Total	3,075	1,116	1,307	1,768

(*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

In particular, interest and fees paid to banks include euro 546 million of interest on short-term borrowings and euro 269 million of expenses on medium/long-term debt positions.

Other financial expense refers to the provision of euro 569 million for the forward purchase commitment of Seat Pagine Gialle shares connected with the estimated nonrecoverability of the original price to exercise the option, the portion of expenses for the year of euro 149 million relating to the deferral of the put option on Seat Pagine Gialle shares recorded in prepaid expenses and expenses on hedging contracts of euro 272 million.

VALUE ADJUSTMENTS TO FINANCIAL ASSETS

- euro 1,956 million

(- euro 1,159 million in 2000)

These include:

(in millions of euro)	2001	2000 (*)	2000	Change
Upward adjustments of:				
- equity investments	167	297	275	(108)
	167	297	275	(108)
Writedowns of:				
- equity investments	(1,933)	(1,440)	(1,432)	(501)
- long-term investments, other than equity investments included in current assets	(49)	-	-	(49)
- securities, included in current assets other than equity investments	(141)	(2)	(2)	(139)
	(2,123)	(1,442)	(1,434)	(689)
Total	(1,956)	(1,145)	(1,159)	(797)

(*) Restated to give effect to the consolidation of the Nortel Inversora group using the equity method instead of the proportional consolidation method.

Value adjustments primarily refer to the Group's share of net income or loss of unconsolidated subsidiaries and affiliated companies accounted for by the equity method, including the amortization of goodwill that arose upon the acquisition of such investments, which is equal to euro 316 million (euro 453 million in 2000). Value adjustments were particularly affected by:

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- the loss of IS TIM (Turkey) for euro 334 million due not only to the expenses incurred in conjunction with the start-up phase but also the effects of the currency crisis in Turkey and the application of inflation accounting principles;
- the writedown of Stream (euro 241 million) and the writedown to adjust the value of securities recorded in current assets to market prices (euro 291 million);
- the loss of the Nortel Inversora group (euro 238 million), which is related to the economic crisis in Argentina and due mainly to exchange losses on financial payables;
- the writedown of Astrolink for euro 259 million, made by Telespazio since the related project was suspended.

EXTRAORDINARY INCOME AND EXPENSE

- euro 3,452 million

(- euro 214 million in 2000)

Extraordinary income and expense shows a net expense balance of euro 3,452 million (- euro 214 million in 2000) which includes euro 852 million of income and euro 4,304 million of expense.

Extraordinary income includes:

- gains on the sale of the 70% holding in Mirror International Holding, the company through which the satellite companies were contributed to the Lehman Brothers group (euro 170 million) and the 30% holding in Mediterranean Nautilus S.A. to the Israeli company F.T.T. Investment (euro 94 million), the dilution of the investment in Auna (euro 16 million) and the increase in the net equity of Lottomatica as a result of the capital increase set aside for third parties when it was listed (euro 35 million);
- income (euro 32 million) deriving from the partial cancellation, by the Council of State, of resolution No. 7533/1999 of the Antitrust Authority under which TIM and Omnitel Pronto Italia were levied administrative fines for the alleged violation of antitrust laws relating to the price fixing of fixed-mobile rates;
- income from the release of reserves by Telecom Italia set aside in prior years for risks which did not materialize (euro 120 million relating to the reserve for the contract with Iraq of euro 62 million and the reserve for corporate restructuring of euro 50 million).

Extraordinary expenses include:

- euro 2,984 million for the writedown of goodwill relating to consolidated companies (9 Telecom group, Entel Bolivia, Entel Chile group, Maxitel group, Tele Celular Sul group, Tele Nordeste Celular group, Tim Brasil, Med-1 group and certain companies in the Seat Pagine Gialle group) and companies accounted for by the equity method (GLB Serviços Interativos, Solpart Participacoes, Telekom Austria and the Nortel Inversora group), as well as other provisions relating to investments. Such writedowns have been made on a consistent basis according to the new business plans and market trends;
- euro 248 million relating to the provision for expenses connected with the Vivendi/Canal Plus agreement for the transfer of the investment in Stream;
- euro 380 million of expenses for employee cutbacks and layoffs (of which euro 203 million refer to Telecom Italia);
- euro 155 million for social security charges under Law 58/1992 to guarantee uniform status under the former Telephone Employees Pension fund (FPT) which, as required by the 2000 Finance Bill, has become part of the "General Employees Pension Fund";
- euro 77 million of extraordinary contributions to INPS – established by the 2000 Finance Bill for the three years 2000-2002 to meet the higher financial requirements covered by the rules of the fund that was abolished;
- euro 85 million resulting from the decision to reposition the broadcasting station La7 as a consequence of the closing of a series of contracts.

■ Income taxes

euro 925 million

(euro 2,020 million in 2000)

Income taxes decreased by euro 1,095 million due to a reduction in the taxable base caused mainly by the extraordinary expenses of Telecom Italia and TIM regarding the valuation of foreign investments.

Income taxes include current taxes for euro 1,186 million and deferred tax assets for euro 261 million.

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■ INTRODUCTION OF THE EURO

The expenses borne for the introduction of the euro currency total about euro 14 million and have been charged to the statement of income under Production cost as they refer to services rendered to revise and update the information systems.

■ REMUNERATION TO DIRECTORS AND STATUTORY AUDITORS

The remuneration to which the directors and statutory auditors of Telecom Italia are entitled for fiscal year 2001 for carrying out their responsibilities and functions in Telecom Italia and also in other consolidated companies, total euro 4,245 thousand for the directors and euro 656 thousand for the statutory auditors.

■ EXCHANGE RATES USED TO TRANSLATE FOREIGN CURRENCY FINANCIAL STATEMENTS

(currency/euro)	Year-end exchange rates (balance sheet items)			Average exchange rate for the year (statement of income items)		
	12/31/2001	12/31/2000	% Change	2001	2000	% Change
Europe						
Greek drachma	0.002934703	0.002934703	-	0.002934703	0.002934703	-
Portuguese escudo	0.004987979	0.004987979	-	0.004987979	0.004987979	-
Portuguese escudo	0.453780216	0.453780216	-	0.453780216	0.453780216	-
Belgian-Luxembourg franc	0.024789352	0.024789352	-	0.024789352	0.024789352	-
French franc	0.152449017	0.152449017	-	0.152449017	0.152449017	-
German mark	0.511291881	0.511291881	-	0.511291881	0.511291881	-
Spanish peseta	0.006010121	0.006010121	-	0.006010121	0.006010121	-
Romanian leu	0.000035949	0.000041317	(13.0)	0.000035949	0.000041317	(13.0)
Pound sterling	1.643385374	1.602307323	2.6	1.608054208	1.641523135	(2.0)
Hungarian forint	0.004078636	0.003773234	8.1	0.003896759	0.003845538	1.3
Russian ruble	0.037240619	0.037641961	(1.1)	0.038242782	0.038635624	(1.0)
Polish zloty	0.286098475	0.259753547	10.1	0.272476471	0.249658880	9.1
North America						
USA dollar	1.134687394	1.074691030	5.6	1.116525329	1.085895562	2.8
South America						
Venezuelan bolivar	0.001471562	0.001475001	(0.2)	0.001471562	0.001475001	(0.2)
Bolivian boliviano	0.166535381	0.168842155	(1.4)	0.169668023	0.177035744	(4.2)
Costarican colon	0.003302924	0.003352322	(1.5)	0.003362076	0.003516555	(4.4)
Peruvian nuevo sol	0.329612014	0.304790138	8.1	0.318505825	0.311423510	2.3
Argentinean peso	0.667463173	1.074691030	(37.9)	1.116525329	1.085895562	2.8
Chilean peso	0.001740402	0.001922253	(9.5)	0.001762476	0.002049817	(14.0)
Brazilian real	0.488901926	0.549401685	(11.0)	0.475524176	0.594135632	(20.0)
Asia						
Hong Kong dollar	0.145511692	0.137782799	5.6	0.143152839	0.139357114	2.7

The following Annexes numbered 1 to 7 are an integral part of these notes.

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■ ANNEX N. 1

ACCOUNTS RECEIVABLE AND ACCRUED INCOME BY MATURITY AND TYPE

	12/31/2001 Amounts due				12/31/2000 Amounts due			
	Within one year	From two to five years	After five years	Total	Within one year	From two to five years	After five years	Total
(In millions of euro)								
Accounts receivable in long-term investments								
Unconsolidated subsidiaries	2			2				
Affiliated companies		3	114	117		127		127
Other:								
customers	2	3	1	6	2	4	1	7
others	78	155	34	267	108	150	17	275
	82	161	149	392	110	281	18	409
Accounts receivable in current assets								
Other loans to:								
Unconsolidated subsidiaries	7			7	29			29
Affiliated companies	206			206	146			146
Others	591			591	931	4		935
	804			804	1,106	4		1,110
Trade accounts receivables:								
Customers	7,901	3		7,904	7,992	5		7,997
Unconsolidated subsidiaries	10			10	10			10
Affiliated companies	360			360	266			266
Parent companies	1			1	3			3
Others	70	1		71	49	2		51
	8,342	4		8,346	8,320	7		8,327
Other receivables:								
Unconsolidated subsidiaries	14			14	2			2
Affiliated companies	1			1	1			1
Others	3,385	223	254	3,862	1,962	274	207	2,443
	3,400	223	254	3,877	1,965	274	207	2,446
Total accounts receivables	12,546	227	254	13,027	11,391	285	207	11,883
Accrued income	152			152	72			72

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■ ANNEX N. 2

LIABILITIES AND ACCRUED EXPENSES BY MATURITY AND TYPE

	12/31/2001 Amounts due				12/31/2000 Amounts due			
	Within one year	From two to five years	After five years	Total	Within one year	From two to five years	After five years	Total
(In millions of euro)								
Medium and long-term debt								
Debentures	180	5,722	2,281	8,183	146	1,070	598	1,814
Convertible debentures		2,500		2,500				
Due to banks	1,105	2,995	345	4,445	862	3,599	697	5,158
Due to other lenders	186	1,090	96	1,372	403	1,158	109	1,670
Suppliers	12	155		167	2	33		35
Notes		221		221		50		50
Affiliated companies	48	176	298	522	48	185	321	554
Taxes payables	18	32		50				
Other liabilities	120	157	15	292	162	445	3	610
	1,669	13,048	3,035	17,752	1,623	6,540	1,728	9,891
Short-term borrowings								
Due to banks	5,790			5,790	11,638			11,638
Due to other lenders	791			791	19			19
Suppliers	1			1	237			237
Unconsolidated subsidiaries	17			17				
Affiliated companies	31			31	137			137
Other liabilities	815			815	1,482			1,482
	7,445			7,445	13,513			13,513
Trade payables (1)								
Suppliers	6,058			6,058	6,507	2		6,509
Unconsolidated subsidiaries	3			3	2			2
Affiliated companies	343			343	478			478
Parent companies	1			1	2			2
	6,405			6,405	6,989	2		6,991
Other payables								
Unconsolidated subsidiaries	5			5	4			4
Affiliated companies	6			6	102			102
Taxes payables	822	50		872	926	3		929
Contributions to pension and social security institutions	267	272	326	865	284	253	398	935
Other liabilities	3,738	6		3,744	2,812	128	7	2,947
	4,838	328	326	5,492	4,128	384	405	4,917
Total liabilities (1)	20,357	13,376	3,361	37,094	26,253	6,926	2,133	35,312
Accrued expenses	403			403	224	4		228

(1) not including advances

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■ ANNEX N. 3

RECONCILIATION OF THE SHAREHOLDERS' EQUITY AND NET INCOME OF TELECOM ITALIA AND THE CONSOLIDATED FIGURES FOR THE YEAR ENDED DECEMBER 31, 2000

	Telecom Italia's interest				Minority interest			Total
	Share capital	Reserves and retained earnings	Net income	Total	Share capital and reserves	Net income	Total	
(In millions of euro)								
Financial statements of Telecom Italia at December 31, 2000	3,835	12,320	2,559	18,714				18,714
Results of consolidated companies			1,048	1,048		1,096	1,096	2,144
Share capital and reserves of consolidated companies		21,062		21,062	5,897		5,897	26,959
- carrying value of investments in consolidated companies		(28,180)		(28,180)				(28,180)
Consolidation adjustments:								
- elimination of tax-related entries		(144)	18	(126)	3		3	(123)
- valuation of investments by the equity method		(978)	(742)	(1,720)	(746)	(149)	(895)	(2,615)
- positive differences on purchase of investments		9,626	(145)	9,481	624	(32)	592	10,073
- elimination of intragroup dividends		11	(1,051)	(1,040)				(1,040)
- losses of subsidiaries included in the results of parent companies		(166)	65	(101)	27	(28)	(1)	(102)
- gains on sales of investments		(200)	87	(113)	2	(2)		(113)
- elimination of intragroup profits included in fixed assets and intangibles		(377)	97	(280)	(44)	22	(22)	(302)
- other		(16)	92	76	25	13	38	114
Consolidated financial statements at December 31, 2000	3,835	12,958	2,028	18,821	5,788	920	6,708	25,529
Deconsolidation of the Nortel Inversora group					(781)	(56)	(837)	(837)
Consolidated financial statements at December 31, 2000	3,835	12,958	2,028	18,821	5,007	864	5,871	24,692

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■ ANNEX N. 3

RECONCILIATION OF THE SHAREHOLDERS' EQUITY AND NET INCOME OF TELECOM ITALIA AND THE CONSOLIDATED FIGURES FOR THE YEAR ENDED DECEMBER 31, 2001

	Telecom Italia's interest				Minority interest			Total
	Share capital	Reserves and retained earnings	Net income (loss)	Total	Share capital	Net income (loss)	Total	
(In millions of euro)								
Financial statements of Telecom Italia at December 31, 2001	4,023	11,697	151	15,871				15,871
Results of consolidated companies			(7,020)	(7,020)		(1,048)	(1,048)	(8,068)
Share capital and reserves of consolidated companies		32,301		32,301	5,914		5,914	38,215
- carrying value of investments in consolidated companies		(39,539)		(39,539)				(39,539)
Consolidation adjustments:								
- elimination of tax-related entries		(137)	70	(67)	4	1	5	(62)
- valuation of investments by the equity method		(1,526)	(888)	(2,414)	(636)	(136)	(772)	(3,186)
- positive differences on purchase of investments		9,788	(860)	8,928	464	(43)	421	9,349
- elimination of intragroup dividends		263	(1,334)	(1,071)		(27)	(27)	(1,098)
- losses of subsidiaries included in the results of parent companies and extraordinary writedown of equity investments		(612)	7,826	7,214	7	1,609	1,616	8,830
- gains on sales of investments		(149)	(35)	(184)	(4)	4		(184)
- elimination of intragroup profits included in fixed assets and intangibles		(283)	57	(226)	(21)	4	(17)	(243)
- elimination of intragroup transactions on investments		(469)		(469)	(283)		(283)	(752)
- other		233	(35)	198	(68)	46	(22)	176
Consolidated financial statements at December 31, 2001	4,023	11,567	(2,068)	13,522	5,377	410	5,787	19,309

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■ ANNEX N. 4

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY FOR THE YEAR ENDED DECEMBER 31, 2000

	Telecom Italia's interest				Minority interest			Total
	Share capital	Reserves and retained earnings	Net income	Total	Share capital and reserves	Net income	Total	
(In millions of euro)								
Consolidated financial statements at December 31, 1999	3,835	11,473	1,737	17,045	2,071	672	2,743	19,788
Appropriation of 1999 net income:								
- dividends distributed		(589)	(1,737)	(2,326)	(50)	(672)	(722)	(3,048)
Changes in the scope of consolidation		370		370	1,076		1,076	1,446
Conversion of TIM saving shares in ordinary shares		1,671		1,671	2,498		2,498	4,169
Translation adjustments on the conversion of financial statements in foreign currencies and other		33		33	193		193	226
Net income for the year			2,028	2,028		920	920	2,948
Consolidated financial statements at December 31, 2000	3,835	12,958	2,028	18,821	5,788	920	6,708	25,529

■ ANNEX N. 4

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY FOR THE YEAR ENDED DECEMBER 31, 2001

	Telecom Italia's interest				Minority interest			Total
	Share capital	Reserves and retained earnings	Net income (loss)	Total	Share capital and reserves	Net income (loss)	Total	
(In millions of euro)								
Consolidated financial statements at December 31, 2000	3,835	12,958	2,028	18,821	5,788	920	6,708	25,529
Deconsolidation of the Nortel Inversora group					(781)	(56)	(837)	(837)
Consolidated financial statements at December 31, 2000	3,835	12,958	2,028	18,821	5,007	864	5,871	24,692
Contribution by shareholders	1	137		138	102		102	240
Cancellation of treasury stock and re-denomination of capital stock in euro	187	(898)		(711)				(711)
Appropriation of 2000 net income:								
- dividends distributed		(281)	(2,028)	(2,309)		(788)	(788)	(3,097)
- transfer to reserves					76	(76)		
Entel Chile group consolidation					358		358	358
Translation adjustments on the conversion of financial statements in foreign currencies and other		(349)		(349)	(166)		(166)	(515)
Net income (loss) for the year			(2,068)	(2,068)		410	410	(1,658)
Consolidated financial statements at December 31, 2001	4,023	11,567	(2,068)	13,522	5,377	410	5,787	19,309

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■ ANNEX 5

LIST OF SUBSIDIARIES CONSOLIDATED ON A LINE-BY-LINE BASIS

Name (type of business)	Head office	Share capital	% of ownership	% of voting rights	Held by
Domestic Wireline					
ATESIA -Telemarketing Comunicazione Telefonica e Ricerche di Mercato S.p.A. (telemarketing)	Rome (Italy)	EUR	3,150,406	100.00	TELECOM ITALIA
LATIN AMERICAN NAUTILUS S.A. (holding company)	Luxembourg	USD	60,000,000	70.00 10.00 10.00 10.00	TELECOM ITALIA ENTEL BOLIVIA ENTEL CHILE TELECOM ARGENTINA
- LATIN AMERICAN NAUTILUS ARGENTINA S.A. (installation and maintenance of submarine cable systems)	Buenos Aires (Argentina)	ARS	12,000	99.99 0.01	LATIN AMERICAN NAUTILUS S.A. Fiduciaries
- LATIN AMERICAN NAUTILUS BRASIL Ltda (installation and maintenance of submarine cable systems)	Rio de Janeiro (Brazil)	BRL	20,000	99.99 0.01	LATIN AMERICAN NAUTILUS S.A. LATIN AMERICAN NAUTILUS USA
- LATIN AMERICAN NAUTILUS CHILE S.A. (installation and maintenance of submarine cable systems)	Santiago (Chile)	CLP	6,200,000	99.99 0.01	LATIN AMERICAN NAUTILUS S.A. Fiduciaries
- LATIN AMERICAN NAUTILUS Ltd (installation and maintenance of submarine cable systems)	Dublin (Ireland)	USD	1,000,000	100.00	LATIN AMERICAN NAUTILUS S.A.
- LATIN AMERICAN NAUTILUS PANAMA S.A. (installation and maintenance of submarine cable systems)	Panama	USD	10,000	100.00	LATIN AMERICAN NAUTILUS S.A.
- LATIN AMERICAN NAUTILUS PERU' S.A. (installation and maintenance of submarine cable systems)	Lima (Peru)	PEN	3,500	99.97 0.03	LATIN AMERICAN NAUTILUS S.A. Fiduciaries
- LATIN AMERICAN NAUTILUS SERVICE Inc. (installation and maintenance of submarine cable systems)	Florida (USA)	USD	10,000	100.00	LATIN AMERICAN NAUTILUS S.A.
- LATIN AMERICAN NAUTILUS USA Inc. (installation and maintenance of submarine cable systems)	Florida (USA)	USD	10,000	100.00	LATIN AMERICAN NAUTILUS S.A.
- LATIN AMERICAN NAUTILUS VENEZUELA C.A. (installation and maintenance of submarine cable systems)	Caracas (Venezuela)	VEB	7,000,000	99.99 0.01	LATIN AMERICAN NAUTILUS S.A. Fiduciaries
MED-1 SUBMARINE CABLES Ltd (construction and maintenance of submarine cable Lev)	Tel Aviv (Israel)	ILS	100,000	23.17 27.83	TELECOM ITALIA STET INTERNATIONAL NETHERLANDS
- MED 1 IC-1 (1999) Ltd (installation and maintenance of submarine cable IC1)	Tel Aviv (Israel)	ILS	1,000	99.99 0.01	MED-1 SUBMARINE CABLES MED-1 ITALY
- MED-1 (NETHERLANDS) B.V. (holding company)	Amsterdam (Holland)	NLG	40,000	100.00	MED-1 SUBMARINE CABLES
- MED-1 ITALY S.r.l. (installation and maintenance submarine cable systems in Italian seas)	Rome (Italy)	EUR	548,477	100.00	MED-1 NETHERLANDS
MEDITERRANEAN NAUTILUS S.A. (holding company)	Luxembourg	USD	326,480,000	62.51 7.49	TELECOM ITALIA STET INTERNATIONAL NETHERLANDS
- ELETTRA TLC S.p.A. (installation and maintenance of submarine cable systems)	Rome (Italy)	EUR	10,329,200	100.00	MEDITERRANEAN NAUTILUS S.A.
- MEDITERRANEAN NAUTILUS Ltd (installation and maintenance of submarine cable systems)	Dublin (Ireland)	USD	100,000	51.00	MEDITERRANEAN NAUTILUS S.A.
- MEDITERRANEAN NAUTILUS B.V. (holding company)	Amsterdam (Holland)	EUR	18,003	100.00	MEDITERRANEAN NAUTILUS Ltd
- MEDITERRANEAN NAUTILUS GREECE S.A. (installation and maintenance of submarine cable systems)	Athens (Greece)	EUR	60,000	100.00	MEDITERRANEAN NAUTILUS B.V.
- MEDITERRANEAN NAUTILUS ISRAEL Ltd (installation and maintenance of submarine cable systems)	Tel Aviv (Israel)	ILS	1,000	100.00	MEDITERRANEAN NAUTILUS B.V.

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» **List of subsidiaries Consolidated on a line-by-line basis**

Name (type of business)	Head office	Share capital	% of ownership	% of voting rights	Held by
- MEDITERRANEAN NAUTILUS ITALY S.p.A. (installation and maintenance) of submarine cable systems	Rome (Italy)	EUR	3,100,000	100.00	MEDITERRANEAN NAUTILUS B.V.
- MEDITERRANEAN NAUTILUS Inc. (telecommunications activities)	Delaware (USA)	USD	3,000	100.00	MEDITERRANEAN NAUTILUS B.V.
PATH.NET S.p.A. (networking systems and telecommunications)	Rome (Italy)	EUR	25,800,000	99.99 0.01	TELECOM ITALIA SODALIA
SARITEL S.p.A. (group factory for added value network services)	Pomezia (Rome, Italy)	EUR	11,445,360	100.00	TELECOM ITALIA
TELECOM ITALIA NETHERLANDS B.V. (telecommunications services)	Amsterdam (Holland)	EUR	18,200	100.00	TELECOM ITALIA
TELECOM ITALIA OF NORTH AMERICA Inc. (telecommunications promotional services)	New York (USA)	USD	5,550,000	100.00	TELECOM ITALIA
TELECOM ITALIA SPAIN S.L. UNIPERSONAL (telecommunications services)	Madrid (Spain)	EUR	703,111	100.00	TELECOM ITALIA
TELECONTACT CENTER S.p.A. (telemarketing)	Naples (Italy)	EUR	110,000	99.99	TELECOM ITALIA
TI BELGIUM S.P.R.L. - B.V.B.A (telecommunications services)	Brussels (Belgium)	EUR	3,000,000	99.99 0.01	TELECOM ITALIA Fiduciaries
TI FRANCE S.A.R.L. (telecommunications services)	Paris (France)	EUR	10,307,800	100.00	TELECOM ITALIA
TI GERMANY GmbH (telecommunications services)	Frankfurt (Germany)	EUR	25,000	100.00	TELECOM ITALIA
TI SWITZERLAND GmbH (telecommunications services)	Zürich (Switzerland)	CHF	2,000,000	100.00	TELECOM ITALIA
TI Telecom Italia (Austria) Telekommunikationsdienste GmbH (telecommunications services)	Vienna (Austria)	EUR	35,000	100.00	TELECOM ITALIA
TI UNITED KINGDOM Ltd (telecommunications services)	London (UK)	GBP	2,295,000	100.00	TELECOM ITALIA
TMI TELEMEDIA INTERNATIONAL ITALIA S.p.A. (acquisition of telecommunications companies and institutions in Italy and abroad)	Rome (Italy)	EUR	86,511,459.20	100.00	TELECOM ITALIA
- TMI TELEMEDIA INTERNATIONAL LUXEMBOURG S.A. (holding company)	Luxembourg	EUR	82,150,675	100.00	TMI - TELEMEDIA INTERN. ITALIA
- TMI - TELEMEDIA INTERNATIONAL Ltd (telecommunications services)	London (UK)	USD	416,400,225	91.14 8.86	TMI - TELEMEDIA INTERN. LUX. TMI - TELEMEDIA INTERN. ITALIA
- EURO DATACOM Ltd (telecommunications services)	Huddersfield (UK)	GBP	306,666	100.00	TMI - TELEMEDIA INTERN. Ltd
- TELECOM MEDIA INTERNATIONAL ITALY-CANADA Inc. (telecommunications services)	Montreal (Canada)	CAD	952,100	100.00	TMI - TELEMEDIA INTERN. Ltd
- TELEMEDIA INTERNATIONAL USA Inc. (telecommunications services)	New Jersey (USA)	USD	119,022,889.68	100.00	TMI - TELEMEDIA INTERN. Ltd
- TMI TELEMEDIA INTERNATIONAL DO BRASIL Ltda (telecommunications services)	São Paulo (Brazil)	BRL	2,443,217	99.99 0.01	TMI - TELEMEDIA INTERN. Ltd Fiduciaries
Mobile Services					
TELECOM ITALIA MOBILE S.p.A. (mobile telecommunications)	Turin (Italy)	EUR	513,964,432.74	54.82 0.14	55.68 0.15 TELECOM ITALIA SOFTE
- TIM INTERNATIONAL N.V. (former STET MOBILE HOLDING N.V.) (holding company)	Amsterdam (Holland)	EUR	555,426,000	100.00	TELECOM ITALIA MOBILE
- AUTEL BETEILIGUNGS GmbH (holding company)	Vienna (Austria)	EUR	35,000	100.00	TIM INTERNATIONAL
- STET HELLAS TELECOMMUNICATIONS S.A. (mobile telephony services)	Athens (Greece)	GRD	41,596,610,000	63.95 0.11	TIM INTERNATIONAL SOFTE

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- TELEPOLIS SERVICES OF MOBILE TELEPHONY S.A. (mobile telephony services)	Athens (Greece)	GRD 2,700,000,000	100.00		STET HELLAS
- TIM BRASIL S.A. (former TIM do Brasil Ltda) (holding company)	Rio de Janeiro (Brazil)	BRL 2,790,790,104.08	100.00		TIM INTERNATIONAL
- BITEL PARTICIPAÇÕES S.A. (holding company)	Rio de Janeiro (Brazil)	BRL 2,290,264,028	99.99999 0.00001		TIM BRASIL Fiduciaries
- MAXITEL S.A. (license holder for mobile teleco mmunications in Bahia e Sergipe areas)	Belo Horizonte (Brazil)	BRL 677,679,703	37.97 58.70	43.15 46.85	TIM INTERNATIONAL BITEL
- MAXITEL TELECOMUNICAÇÕES Ltda (telecommunication company and sale of mobile phones)	Salvador de Bahia (Brazil)	BRL 1,000	99.90 0.10		MAXITEL S.A. Fiduciaries
- OFFSHORE FINANCIAL & SECURITIES Inc. (holding company)	Tortola (British Virgin Islands)	USD 6,104,860	100.00		MAXITEL S.A.
- TELE CELULAR SUL PARTICIPAÇÕES S.A. (holding company for operating companies providing mobile network services)	Curitiba (Brazil)	BRL 245,033,341	19.37	51.35	BITEL
- CTMR CELULAR S.A. (mobile telephony operator)	Pelotas (Brazil)	BRL 21,251,917.26	78.56	81.32	TELE CELULAR SUL
- TELEPAR CELULAR S.A. (mobile telephony operator)	Curitiba (Brazil)	BRL 333,880,024.34	75.37	87.43	TELE CELULAR SUL
- TELESC CELULAR S.A. (mobile telephony operator)	Florianopolis (Brazil)	BRL 249,170,454.34	83.13	91.62	TELE CELULAR SUL
- TELE NORDESTE CELULAR PARTICIPAÇÕES S.A. (holding company for operating companies providing mobile network services)	Recife (Brazil)	BRL 186,053,905.66	19.38	51.24	BITEL
- TELASA CELULAR S.A. (mobile telephony operator)	Maceio (Brazil)	BRL 31,409,860.10	78.02	97.20	TELE NORDESTE CELULAR
- TELECEARA' CELULAR S.A. (mobile telephony operator)	Fortaleza (Brazil)	BRL 89,439,654.33	79.55	85.65	TELE NORDESTE CELULAR
- TELEPISA CELULAR S.A. (mobile telephony operator)	Teresina (Brazil)	BRL 23,392,322.95	78.85	97.52	TELE NORDESTE CELULAR
- TELERN CELULAR S.A. (mobile telephony operator)	Natal (Brazil)	BRL 42,823,497.29	75.42	92.57	TELE NORDESTE CELULAR
- TELPA CELULAR S.A. (mobile telephony operator)	Joaõ Pessoa (Brazil)	BRL 43,164,229.17	71.85	94.87	TELE NORDESTE CELULAR
- TELPE CELULAR S.A. (mobile telephony operator)	Recife (Brazil)	BRL 113,848,783.98	77.68	94.87	TELE NORDESTE CELULAR
- TIM Celular Centro Sul S.A (former BLUCEL S.A.) (mobile telephony operator)	Brasília (Brazil)	BRL 271,827,025	100.00		TIM BRASIL
- TIM Rio Norte S.A. (former UNICEL S.A.) (mobile telephony operator)	Rio de Janeiro (Brazil)	BRL 495,300,000	100.00		TIM BRASIL
- TIM São Paulo S.A. (former STARCEL S.A.) (mobile telephony operator)	São Paulo (Brazil)	BRL 512,780,589	100.00		TIM BRASIL
- TIMNET.COM S.A. (mobile services)	Rio de Janeiro (Brazil)	BRL 78,000,000	20.00 20.00 20.00 20.00		TIM INTERNATIONAL MAXITEL S.A. TELE NORDESTE CELULAR TELE CELULAR SUL TIM SÃO PAULO
-TIM PERU' S.A.C. (mobile telephony operator)	Lima (Perù)	PEN 652,231,998	100.00		TIM INTERNATIONAL
- CORPORACION DIGITEL C.A. (telecommunications services)	Caracas (Venezuela)	VEB 42,823,450,241	56.56		TIM INTERNATIONAL

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Internet and Media					
SEAT PAGINE GIALLE S.p.A. (publishing and Internet services)	Milan (Italy)	EUR 341,183,511.30	53.21 1.90 0.0168 0.132	53.41 1.93 0.0171 0.134	TELECOM ITALIA HUIT II SARITEL SOFTE
- CIPI S.p.A. (personalized products for companies)	Milan (Italy)	EUR 208,000	60.00		SEAT PAGINE GIALLE
- CONSODATA S.A. (management and supply of data banks and market researches)	Levallois Perret (France)	EUR 4,731,867	90.74		SEAT PAGINE GIALLE
- BCA FINANCES S.A. (analysis, management and trading of data banks)	Lille (France)	FRF 700,000	100.00		CONSODATA S.A.
- BCA S.A. (analysis, management and trading of data banks)	Lille (France)	FRF 500,000	17.00 83.00		CONSODATA S.A. BCA FINANCES
- CAL- CONSUMER ACCES Ltd (management and supply of data banks)	Kingston (UK)	GBP 200,000	100.00		CONSODATA S.A.
- CONSODATA GROUP Ltd (management and supply of data banks)	London (UK)	GBP 2	100.00		CAL- CONSUMER ACCES Ltd
- CONSODATA UK Ltd (business information)	Kingston (UK)	GBP 2	100.00		CAL- CONSUMER ACCES Ltd
- CONSOBELGIUM S.A. (business information)	Brussels (Belgium)	EUR 62,500	100.00		CONSODATA S.A.
- CHINALOOP Holdings (mailing list activities)	Cayman Islands	USD 29,961.3	50.06		CONSODATA S.A.
- CHINALOOP (Mauritius) Co (mailing list activities)	Port Louis (Mauritius)	USD 200	100.00		CHINALOOP Holdings
- SHANGHAI CHINA LOOP INFORMATION SERVICES (mailing list activities)	Shanghai (China)	USD 1,730,000	100.00		CHINALOOP (Mauritius) Co
- CONSODATA ESPAÑA S.A. (business information)	Barcelona (Spain)	ESP 310,000,000	100.00		CONSODATA S.A.
- CONSODATA ITALIA S.r.l. (business information)	Milan (Italy)	EUR 10,200	100.00		CONSODATA S.A.
- CONSODATA SOLUTIONS S.A. (data management)	Levallois Perret (France)	EUR 270,000	100.00		CONSODATA S.A.
- CONSODATA S.p.A. (former GIALLO DAT@ S.p.A.) (services of direct marketing, creation, management and marketing of data bank)	Rome (Italy)	EUR 6,500,000	100.00		CONSODATA S.A.
- DOMINO RESEARCH S.r.l. (data processing geomarketing sector)	Milan (Italy)	EUR 46,400	60.00		CONSODATA S.p.A.
- DWI S.p.A. (design, software realization)	Verona (Italy)	EUR 500,000	51.00		CONSODATA S.p.A.
- FINANZA E GESTIONE S.r.l. (creation, management and trading of data banks for the banking sector)	Milan (Italy)	EUR 77,450	60.00		CONSODATA S.p.A.
- PHARMASOFT CONSULTING S.r.l. (design, management and marketing of pharmaceutical sector data bank)	Rome (Italy)	EUR 1,032,910	60.00		CONSODATA S.p.A.
- PUBBLIBABY S.p.A. (design, management and marketing of native sector data bank)	Cusago (Milan, Italy)	EUR 100,000	61.00		CONSODATA S.p.A.
- MEDIA PRISME S.A. (analysis, management and trading of data banks)	Paris (France)	FRF 250,000	50.00 50.00		CONSODATA S.A. BCA FINANCES
- MP LIST S.A. (analysis, management and trading of data banks)	Brussels (Belgium)	FB 750,000	100.00		MEDIA PRISME
- DATABANK S.p.A. (marketing)	Milan (Italy)	EUR 937,300	93.47		SEAT PAGINE GIALLE

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- DATABANK WETTBEWERBS - MARKT UND FINANZANALYSE GmbH (marketing)	Darmstadt (Germany)	EUR 153,387.56	60.00		DATABANK S.p.A.
- DBK S.A. (marketing)	Madrid (Spain)	EUR 99,000	99.99		DATABANK S.p.A.
- DATA HOUSE S.p.A. (gathering and sale of real estate information)	Milan (Italy)	EUR 200,850	52.00		SEAT PAGINE GIALLE
- ITALSERVICE S.r.l. (holding company)	Varese (Italy)	EUR 10,400	100.00		DATA HOUSE
- ITALSERVICE S.p.A. (management of data from the public real estate Registry and from other public bodies)	Milan (Italy)	EUR 104,000	40.00 60.00		DATA HOUSE ITALSERVICE S.r.l.
- EUREDIT S.A. (realization, promotion and marketing European technology of commerce annual "Europages")	Paris (France)	EUR 2,800,000	93.56		SEAT PAGINE GIALLE
- FINANZIARIA WEB S.p.A. (financing)	Turin (Italy)	EUR 9,606,073.50	60.00		SEAT PAGINE GIALLE
- MATRIX S.p.A. (Internet services)	Milan (Italy)	EUR 1,100,000	0.70 66.00 33.30		SEAT PAGINE GIALLE FINANZIARIA WEB N.V. VERTICO
- FREE FINANCE S.p.A. (Internet loans for the real estate market)	Milan (Italy)	EUR 148,102	89.38		MATRIX
- GIALLO MARKET S.r.l. (owner of Virgilio.it)	Milan (Italy)	EUR 1,000,000	90.00 10.00		MATRIX MONDUS LTD
- KMATRIX S.r.l. (creation and management of an Internet site)	Milan (Italy)	EUR 100,000	100.00		MATRIX
- LINK S.r.l. (supply of computer services)	Milan (Italy)	EUR 10,400	100.00		MATRIX
- OLA'! S.r.l. (advertising on-line)	Milan (Italy)	EUR 10,400	51.00		MATRIX
- XOOM.it S.p.A. (development and management of virtual communities)	Milan (Italy)	EUR 100,000	100.00		MATRIX
- ZDNET ITALIA S.r.l. (creation and management of Internet sites)	Milan (Italy)	EUR 400,000	51.00		MATRIX
- FINSATEL S.r.l. (holding company)	Turin (Italy)	EUR 133,000	100.00		SEAT PAGINE GIALLE
- GIALLO LAVORO S.p.A. (research, selection and training of human resources)	Turin (Italy)	EUR 100,000	100.00		SEAT PAGINE GIALLE
- GIALLO PROFESSIONAL PUBLISHING S.p.A. (publishing, typographic and graphic marketing, advertising)	Turin (Italy)	EUR 1,000,000	100.00		SEAT PAGINE GIALLE
- GRUPPO EDITORIALE FAENZA EDITRICE S.p.A. (publishing house)	Faenza (Ravenna, Italy)	EUR 260,000	60.00		GIALLO PROFESSIONAL PUBLISHING
- FAENZA EDITRICE IBERICA S.L. (publishing house also on behalf of third parties)	Castellon de La Plana (Spain)	EUR 3,005.50	100.00		GRUPPO EDITORIALE FAENZA EDITRICE
- FAENZA EDITRICE DO BRASIL Ltda (publishing house also on behalf of third parties)	Saõ Paulo (Brazil)	BRL 132,347.46	90.00 10.00		GRUPPO EDITORIALE FAENZA EDITRICE FAENZA EDITRICE IBERICA
- PROMO ADVERTISING S.r.l. (acquisition of advertising on behalf of magazines, tv and multimedia broadcasting)	Faenza (Ravenna, Italy)	EUR 10,320	100.00		GRUPPO EDITORIALE FAENZA EDITRICE
- GRUPPO EDITORIALE JCE S.p.A. (publishing house)	Cinisello Balsamo (Milan, Italy)	EUR 1,032,800	65.00		GIALLO PROFESSIONAL PUBLISHING
- QUASAR E ASSOCIATI S.r.l. (multimedia publishers)	Milan (Italy)	EUR 20,408	51.00		GIALLO PROFESSIONAL PUBLISHING

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- EDITORIALE QUASAR S.r.l. (publishing house and advertising agency)	Milan (Italy)	EUR	10,000	100.00	QUASAR E ASSOCIATI
- TTG ITALIA S.p.A. (publishing house for the touristic market)	Turin (Italy)	EUR	100,000	98.00	GIALLO PROFESSIONAL PUBLISHING
- GIALLO VIAGGI.it S.p.A. (research, development, production of information and telematic products for tourism)	Milan (Italy)	EUR	100,000	100.00	SEAT PAGINE GIALLE
- MEDIOLANUM TOURIST SERVICE S.r.l. (tour operator)	Milan (Italy)	EUR	10,200	100.00	GIALLO VIAGGI.it
- GIALLO VOICE S.p.A. (teleselling, telemarketing, call centers and marketing)	Turin (Italy)	EUR	1,000,000	100.00	SEAT PAGINE GIALLE
- CALL CENTER SERVICES S.r.l. (call center services)	Cernusco sul Naviglio (Milan, Italy)	EUR	10,350	66.00	GIALLO VOICE
- IMR S.r.l. (call center services)	Turin (Italy)	EUR	10,500	51.00	GIALLO VOICE
- OPS S.r.l. (call center services)	Milan (Italy)	EUR	10,200	51.00	GIALLO VOICE
- TELEPROFESSIONAL S.r.l. (call center services)	Monza (Milan, Italy)	EUR	52,000	66.00	GIALLO VOICE
- GRUPPO BUFFETTI S.p.A. (supply of products regarding the paper industry, printing and publishing)	Rome (Italy)	EUR	11,817,000	100.00	SEAT PAGINE GIALLE
- MAGIQ 32 S.r.l. (wholesale of paper and millboard)	Rome (Italy)	EUR	510,000	100.00	GRUPPO BUFFETTI
- OFFICE AUTOMATION PRODUCTS S.p.A. (former INDUSTRIAL SERVICE S.p.A.) (wholesale magnetic stand)	Lecco (Italy)	EUR	774,000	84.00	GRUPPO BUFFETTI
- IS PRODUCTS S.p.A. (marketing of office automation)	Lecco (Italy)	EUR	9,360,000	27.78 72.22	GRUPPO BUFFETTI OFFICE AUTOMATION PRODUCTS
- INCAS PRODUCTIONS S.r.l. (wholesale production and marketing of office consumable products)	Venaria Reale (Turin, Italy)	EUR	510,000	100.00	OFFICE AUTOMATION PRODUCTS
- PBS PROFESSIONAL BUSINESS SOFTWARE S.p.A. (production and trading of business software)	Rome (Italy)	EUR	127,500	99.996 0.004	GRUPPO BUFFETTI BUFFETTI S.r.l.
- SK DIRECT S.r.l. (graphic arts)	Rome (Italy)	EUR	5,522,920	58.37 41.63	GRUPPO BUFFETTI OFFICE AUTOMATION PRODUCTS
- HOLDING MEDIA E COMUNICAZIONE H.M.C. S.p.A. (former CECCHI GORI COMMUNICATIONS S.p.A.) (production, marketing on TV and press)	Rome (Italy)	EUR	5,064,000	100.00	SEAT PAGINE GIALLE
- GLOBO EUROPA B.V. (holding company)	Amsterdam (Holland)	NLG	400,000	100.00	HOLDING MEDIA E COMUNICAZIONE HMC
- GLOBO COMMUNICATION S.A.M. (production, acquisition and trading of TV programs)	Montecarlo	EUR	8,400,000	99.99	GLOBO EUROPA
- TV INTERNAZIONALE S.p.A. (licensee of a TV broadcasting)	Rome (Italy)	EUR	6,200,000	100.00	GLOBO EUROPA
- BEIGUA S.r.l. (management of a TV broadcasting)	Milan (Italy)	EUR	51,480	51.00	TV INTERNAZIONALE
- GIAROLO S.r.l. (management of TV programs)	Milan (Italy)	EUR	50,490	75.50	TV INTERNAZIONALE
- T.V.I. MONTECARLO S.A.M. (trading and licensee of TV programs)	Montecarlo	EUR	150,000	99.50	GLOBO EUROPA
- HOLDING MEDIA E COMUNICAZIONE BROADCASTING S.r.l. (former CECCHI GORI BROADCASTING S.r.l.) (maintenance of audio/video TV equipments)	Rome (Italy)	EUR	103,400	50.00 50.00	HOLDING MEDIA E COMUNICAZIONE HMC TV INTERNAZIONALE

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- HOLDING MEDIA E COMUNICAZIONE PUBBLICITA' S.r.l. (former CECCHI GORI ADVERTISING S.r.l.) (advertising agency for TV and radio broadcasting)	Rome (Italy)	EUR	516,500	100.00	HOLDING MEDIA E COMUNICAZIONE HMC
- MTV ITALIA S.r.l. (former BETA TELEVISION S.r.l.) (licensee of a radio and TV broadcasting)	Rome (Italy)	EUR	12,151,928	51.00	HOLDING MEDIA E COMUNICAZIONE HMC
- HOLDING MEDIA E COMUNICAZIONE PRODUZIONI S.r.l. (former CECCHI GORI NEWS AND SPORT S.r.l.) (production and acquisition of radio and TV programs rights)	Rome (Italy)	EUR	258,864	50.00 50.00	MTV ITALIA TV INTERNAZIONALE
- MTV PUBBLICITA' S.r.l. (advertising agency)	Milan (Italy)	EUR	10,400	100.00	MTV ITALIA
- ITALBIZ.COM Inc. (maintenance of an Internet site)	California (USA)	USD	13,800	72.46	SEAT PAGINE GIALLE
- KOMPASS ITALIA S.p.A. (publishing of annuals and sale of telematic products)	Turin (Italy)	EUR	1,610,904.88	100.00	SEAT PAGINE GIALLE
- NEOEXPO S.p.A. (on-line events regarding fairs)	Palazzolo sull'Oglio (Brescia, Italy)	EUR	510,000	60.00	SEAT PAGINE GIALLE
- NETCREATIONS Inc. (management of the license regarding the software products of Netex Ltd)	New York (USA)	USD	1	100.00	SEAT PAGINE GIALLE
- PAN-ADRESS DIREKTMARKETING & Co. KG (direct marketing)	Munich (Germany)	DEM	2,040,000	100.00	SEAT PAGINE GIALLE
- CONSODATA DEUTSCHLAND GmbH (creation and maintenance of a database for mailing activities)	Munich (Germany)	DEM	50,000	100.00	PAN-ADRESS DIREKTMARK. & Co.KG
- CONSODATA MARKETING INTELLIGENCE GmbH (strategic analysis and data profiling)	Munich (Germany)	EUR	25,000	100.00	PAN-ADRESS DIREKTMARK. & Co.KG
- MEDIPLAN GmbH (creation and maintenance of a database for mailing activities)	Munich (Germany)	EUR	26,000	100.00	PAN-ADRESS DIREKTMARK. & Co.KG
- PAN-ADRESS DIREKTMARKETING VERWALTUNG GmbH (former GENERAL PARTNER GmbH) (direct marketing)	Munich (Germany)	EUR	25,000	100.00	SEAT PAGINE GIALLE
- TDL INFOMEDIA Ltd (holding company)	Hampshire (UK)	GBP	139,524.78	99.60	SEAT PAGINE GIALLE
- MYBLUECAT.COM Ltd (supply of services)	Hampshire (UK)	GBP	2	100.00	TDL INFOMEDIA
- TDL INFOMEDIA FINANCE Ltd (holding company)	Hampshire (UK)	GBP	9,734.09	100.00	TDL INFOMEDIA
- TDL INFOMEDIA HOLDINGS Plc (holding company)	Hampshire (UK)	GBP	397,126.43	100.00	TDL INFOMEDIA FINANCE
- TDL INFOMEDIA GROUP Plc (holding company)	Hampshire (UK)	GBP	624,576.64	100.00	TDL INFOMEDIA HOLDINGS
- TDL GROUP Ltd (holding company)	Hampshire (UK)	GBP	89,864.25	100.00	TDL INFOMEDIA GROUP
- THOMSON DIRECTORIES Ltd (publishing and marketing directories)	Hampshire (UK)	GBP	1,340,000	100.00	TDL GROUP
- TDL INVESTMENTS B.V. (former MARACANA' HOLDING B.V.) (supply of services)	Rotterdam (Holland)	EUR	20,000	100.00	TDL INFOMEDIA
- TELEGATE HOLDING GmbH (holding company)	Martinsried (Germany)	DEM	51,000	100.00	SEAT PAGINE GIALLE
- TELEGATE A.G. (call center services)	Martinsried (Germany)	EUR	12,730,000	13.54 50.99	SEAT PAGINE GIALLE TELEGATE HOLDING
- ARSMOVENDI.COM A.G. (Internet services)	Munich (Germany)	EUR	150,000	100.00	TELEGATE A.G.

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- TRAVELGATE BUSINESS GmbH (business tour operator)	Munich (Germany)	EUR 25,000	100.00		ARSMOVENDI .COM
- TRAVELTEAM24 GmbH (tour operator)	Schongau (Germany)	DEM 100,000	100.00		TRAVELGATE BUSINESS
- DATAGATE GmbH (call center services)	Martinsried (Germany)	EUR 25,000	100.00		TELEGATE A.G.
- KIMTRAVEL CONSULTING A.G. (tour operator)	Munich (Germany)	EUR 69,493	100.00		TELEGATE A.G.
- TELEGATE AKADEMIE GmbH (training center for employees of call centers)	Rostock (Germany)	EUR 25,000	100.00		TELEGATE A.G.
- TELEGATE ANKLAM GmbH (call center services)	Anklam (Germany)	DEM 100,000	100.00		TELEGATE A.G.
- 11880.com GmbH (call center services)	Martinsried (Germany)	EUR 25,000	100.00		TELEGATE ANKLAM
- MOBILSAFE A.G. (Internet services)	Meerbusch (Germany)	EUR 150,000	100.00		TELEGATE ANKLAM
- TELEGATE CALL CENTER GmbH (call center services)	Martinsried (Germany)	EUR 25,000	100.00		TELEGATE A.G.
- PHONECOM GmbH (call center services)	Munich (Germany)	DEM 153,900	50.68		TELEGATE CALL CENTER
- MEDIA EVOLUTION AGENTUR FUR NEUE MEDIE GmbH (call center services)	Munich (Germany)	DEM 60,000	100.00		PHONECOM
- TGT HOLDING B.V. (holding company)	Schiphol (Holland)	EUR 18,200	100.00		TELEGATE A.G.
- TELEGATE ESPAÑA S.A. (former TELEGATE COMMUNICATIONS SYSTEMS S.A.) (call center services)	Las Mathas Madrid (Spain)	EUR 61,000	99.00 1.00		TGT HOLDING TELEGATE A.G.
- TELEGATE GmbH (call center services)	Vienna (Austria)	EUR 35,000	100.00		TGT HOLDING
- TELEGATE Inc. (call center services)	Texas (USA)	USD 1,000	100.00		TGT HOLDING
- TELEGATE ITALIA S.r.l. (call center services)	Milan (Italy)	EUR 129,000	99.00 1.00		TGT HOLDING TELEGATE A.G.
- TELEGATE Ltd (call center services)	London (UK)	GBP 50,000	100.00		TGT HOLDING
- TICKETONE S.p.A. (ticket sales)	Milan (Italy)	EUR 620,210	52.30		SEAT PAGINE GIALLE
- TIN WEB S.p.A. (former GIALLO WEB S.r.l.) (advices regarding the creation of Internet sites)	Milan (Italy)	EUR 100,000	100.00		SEAT PAGINE GIALLE

International Operations

STET INTERNATIONAL NETHERLANDS N.V. (holding company)	Amsterdam (Holland)	EUR 2,378,338,950	100.00		TELECOM ITALIA
- 9 TELECOM RESEAU S.A. (telecommunications services)	Boulogne Billancourt (France)	EUR 616,291,485	97.34 0.04		STET INTERNATIONAL NETHERLANDS T.M.I. TELEMEDIA INT. Ltd
- JET MULTIMEDIA S.A. (Internet hosting)	Lyon (France)	EUR 10,699,748	89.72 0.95 0.18		9 TELECOM RESEAU SOFTE JET MULTIMEDIA
- JET MEDIA S.A. (advertising on TV, radio and press)	Lyon (France)	EUR 100,000	99.76 0.04 0.20		JET MULTIMEDIA OMEGA Fiduciaries
- PUBLICLAIR S.A. (advertising services for magazines)	Paris (France)	EUR 38,112	98.80 0.20 1.00		JET MEDIA OMEGA Fiduciaries
- JET MULTIMEDIA HOSTING S.A. (design, development and maintenance of Web and Audiotel, Minitel services)	Lyon (France)	EUR 11,818,318	99.99 0.01		JET MULTIMEDIA Fiduciaries

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Name (type of business)	Head office	Share capital	% of ownership	% of voting rights	Held by
- IB TELEMATIC S.A. (Minitel services)	Paris (France)	EUR 430,280	99.97 0.03		JET MULTIMEDIA HOSTING Fiduciaries
- ICOR S.A. (Internet, Extranet and Intranet for tourism)	Le Bourget du Lac (France)	EUR 96,000	99.87 0.02 0.11		JET MULTIMEDIA HOSTING OMEGA Fiduciaries
- JET MULTIMEDIA S.r.l. (Internet services)	Milan (Italy)	EUR 10,400	100.00		JET MULTIMEDIA HOSTING
- ITALIA EXPLORER S.r.l. (Internet services)	Milan (Italy)	EUR 11,000	100.00		JET MULTIMEDIA S.r.l.
- METAPHORA S.A. (consulting for management of information systems)	Toulouse (France)	EUR 469,543	38.25 13.80 0.02	46.60 8.40 0.02	JET MULTIMEDIA HOSTING JET VENTURE Fiduciaries
- VILLAGES TOURS S.a.r.l. (travel agency and website for tourism)	Lyon (France)	EUR 39,637	100.00		JET MULTIMEDIA HOSTING
- TRAVEL MANIA S.a.r.l. (travel agency and website for tourism)	Lyon (France)	EUR 304,898	97.00		VILLAGES TOURS
- JET VENTURE S.A. (financing and development of Internet services)	Paris (France)	EUR 8,000,000	99.88 0.12		JET MULTIMEDIA OMEGA
- OMEGA S.a.r.l. (intergroup services)	Lyon (France)	EUR 80,000	100.00		JET MULTIMEDIA
- VICTOIRE MULTIMEDIA S.A. (Internet services)	Paris (France)	EUR 89,025	99.90 0.02 0.08		JET MULTIMEDIA OMEGA Fiduciaries
- PRESSINVEST S.A. (Minitel services)	Paris (France)	EUR 128,992	99.93 0.01 0.06		VICTOIRE MULTIMEDIA OMEGA Fiduciaries
- VICTOIRE MULTIMEDIA INFORMATIQUE S.A. (development of Internet sites)	Paris (France)	EUR 1,165,665	99.98 0.02		VICTOIRE MULTIMEDIA Fiduciaries
- OFFICE CENTRAL DE DOCUMENTATION S.A. (Minitel services and legal affair data base)	Paris (France)	EUR 38,112	99.76 0.04 0.20		VICTOIRE MULTIMEDIA INFORM. OMEGA Fiduciaries
- MAGEOS EXPLORER S.A. (former EUROPE EXPLORER) (Internet services)	Lyon (France)	EUR 6,317,788.80	91.21		9TELECOM RESEAU
- BELGIUM EXPLORER S.A. (Internet services)	Brussels (Belgium)	EUR 62,000	99.92		MAGEOS EXPLORER
- FRANCE EXPLORER S.A. (Internet services)	Lyon (France)	EUR 1,532,113	99.99		MAGEOS EXPLORER
- HOLLAND EXPLORER B.V. (Internet services)	Amsterdam (Holland)	EUR 100,000	100.00		MAGEOS EXPLORER
- EUROPE EXPLORER PORTUGAL L.D.A. (Internet services)	Lisbon (Portugal)	EUR 11,000	100.00		MAGEOS EXPLORER
- SWISS EXPLORER on-line S.a.r.l. (Internet services)	Lousanne (Switzerland)	CHF 20,000	100.00		MAGEOS EXPLORER
- BBNEED N.V. (telecommunications services)	Amsterdam (Holland)	EUR 52,425,000	96.17		STET INTERNATIONAL NETHERLANDS
- BBeyond B.V. (telecommunications services)	Amsterdam (Holland)	EUR 18,000	100.00		BBNEED
- ENTEL CHILE S.A. (telecommunications services)	Santiago (Chile)	CLP 396,209,996,527	54.76		STET INTERNATIONAL NETHERLANDS
- AMERICATEL CENTROAMERICA S.A. (holding company)	Guatemala City (Guatemala)	USD 2,649,608	78.65		ENTEL CHILE
- AMERICATEL EL SALVADOR S.A. DE C.V. (telecommunications services)	San Salvador (El Salvador)	USD 972,036	15.00 85.00		ENTEL CHILE AMERICATEL CENTROAMERICA
- AMERICATEL GUATEMALA S.A. (telecommunications services)	Guatemala City (Guatemala)	GTQ 450,000	100.00		AMERICATEL CENTROAMERICA
- AMERICATEL HONDURAS S.A. (telecommunications services)	Tegucigalpa (Honduras)	HNL 500,000	100.00		AMERICATEL CENTROAMERICA
- INDUSTRIAS TELEPUERTOS NICARAGUENSES S.A. (telecommunications services)	Managua (Nicaragua)	NIO 255,000,000	100.00		AMERICATEL CENTROAMERICA

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- ENTEL CALL CENTER S.A. (telecommunications services)	Santiago (Chile)	CLP 6,073,225,767	90.00	10.00	ENTEL CHILE ENTEL INVERSIONES
- ENTEL INTERNATIONAL B.V.I. Corp. (holding company)	Tortola (British Virgin Islands)	CLP 31,480,049,720	100.00		ENTEL CHILE
- AMERICATEL CORP. USA (telecommunications services)	Florida (USA)	USD 62,372,552.74	80.00		ENTEL INTERNATIONAL B.V.I.
- ENTEL USA HOLDING Inc. (holding company)	Florida (USA)	USD 1,000	100.00		ENTEL INTERNATIONAL B.V.I.
- AMERICASKY Corporation (telecommunications services)	Florida (USA)	USD 1,000	80.00	20.00	ENTEL USA HOLDING ENTEL INTERNATIONAL B.V.I.
- ENTEL INVERSIONES S.A. (holding company)	Santiago (Chile)	CLP 3,129,511,471	99.99	0.01	ENTEL CHILE Fiduciaries
- AMERICATEL PERU' S.A. (former ORBITEL PERU S.A.) (telecommunications services)	Lima (Perù)	PEN 38,308,496.13	45.69	54.31	ENTEL CHILE ENTEL INVERSIONES
- ENTEL INVESTMENTS Inc. (holding company)	Tortola (British Virgin Islands)	USD 1,630	100.00		ENTEL CHILE
- ENTEL SERVICIOS TELEFONICOS S.A. (telecommunications services)	Santiago (Chile)	CLP 1,071,339,726	91.42	8.58	ENTEL CHILE ENTEL INVERSIONES
- ENTEL TELEFONIA LOCAL S.A. (local telecommunications services)	Santiago (Chile)	CLP 22,440,766,220	99.00	1.00	ENTEL CHILE ENTEL INVERSIONES
- CHILE WIRELESS S.A. (holding company)	Santiago (Chile)	CLP 112,745,830	99.00	1.00	ENTEL TELEFONIA LOCAL ENTEL INVERSIONES
- ENTEL TELEFONIA PERSONAL S.A. (holding company)	Santiago (Chile)	CLP 123,550,386,824	94.64	5.36	ENTEL CHILE ENTEL INVERSIONES
- EMPRESA DE RADIOCOMUNICACIONES INSTA BEEP Ltda (telecommunications services)	Santiago (Chile)	CLP 2,250,968,492	99.90		ENTEL TELEFONIA PERSONAL
- ENTEL PCS TELECOMUNICACIONES S.A. (mobile telecommunications services)	Santiago (Chile)	CLP 95,503,905,176	0.10	99.90	ENTEL CHILE ENTEL TELEFONIA PERSONAL
- ENTEL TELEFONIA MOVIL S.A. (mobile telecommunications services)	Santiago (Chile)	CLP 1,829,096,682	0.08	99.92	ENTEL CHILE ENTEL TELEFONIA PERSONAL
- MICARRIER TELECOMUNICACIONES S.A. (telecommunications services)	Santiago (Chile)	CLP 3,139,539,748	99.99	0.01	ENTEL CHILE ENTEL INVERSIONES
- ORBITEL VENEZUELA S.A. (telecommunications services)	Caracas (Venezuela)	VEB 709,500,000	100.00		ENTEL CHILE
- RED DE TRANSACCIONES ELECTRONICAS S.A (telecommunications services)	Santiago (Chile)	CLP 1,582,287,416	93.76		ENTEL CHILE
- SATEL TELECOMUNICACIONES S.A. (telecommunications services)	Santiago (Chile)	CLP 2,698,727,530	99.90	0.10	ENTEL CHILE ENTEL INVERSIONES
- ICH – International Communication Holding N.V. (holding company)	Amsterdam (Holland)	EUR 50,000	100.00		STET INTERNATIONAL NETHERLANDS
- ETI – Euro Telecom International N.V. (holding company)	Amsterdam (Holland)	EUR 50,050	100.00		ICH
- ENTEL Empresa Nacional de Telecomunicaciones S.A. (telecommunications services)	La Paz (Bolivia)	BOB 1,280,898,800	50.00		ETI
- DATACOM S.A. (data transmission services)	La Paz (Bolivia)	BOB 21,746,600	99.99		ENTEL BOLIVIA
- INDIAN TELECOMMUNICATION HOLDING B.V. (holding company)	Amsterdam (Holland)	EUR 151,500	100.00		STET INTERNATIONAL NETHERLANDS
- INTELCOM SAN MARINO S.p.A (telecommunications services in San Marino)	Republic of San Marino	EUR 1,550,000	70.00		STET INTERNATIONAL NETHERLANDS
- TELECOM ITALIA DE ESPAÑA S.A. (services and agency activities)	Madrid (Spain)	EUR 2,103,542	100.00		STET INTERNATIONAL NETHERLANDS
TELECOM ITALIA DO BRASIL S/C Ltda (telecommunications promotional services)	Rio de Janeiro (Brazil)	BRL 2,699,758	99.9933	0.0067	TELECOM ITALIA Fiduciaries
TELECOM ITALIA GmbH (holding company)	Vienna (Austria)	ATS 500,000	100.00		TELECOM ITALIA

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TI WEB S.A. (holding company)	Luxembourg	USD	856,779,000	99.99999 0.00001	TELECOM ITALIA Fiduciaries
- TELSI Ltd (holding companies)	London (UK)	EUR	603,565,000	99.99999 0.00001	TI WEB Fiduciaries
I.T. Services					
IT TELECOM S.p.A. (information and communication technology)	Rome (Italy)	EUR	25,000,000	100.00	TELECOM ITALIA
FINSIEL - Consulenza e Applicazioni Informatiche S.p.A. (conception and implementation of projects in information technology applications)	Rome (Italy)	EUR	59,982,384.60	77.92 0.63	TELECOM ITALIA FINSIEL
- ASPASIEL S.r.l. (information systems)	Rome (Italy)	EUR	260,000	50.00	51.00 FINSIEL
- BANKSIEL - Società di informatica e Organizzazione p.A. (design, installation, operation and maintenance of information systems for bank and insurance companies)	Milan (Italy)	EUR	10,400,000	55.50	FINSIEL
- CARISIEL Sistemi Informativi Elettronici per il Settore Creditizio e Finanziario S.p.A. (electronic information systems for banking and financial industry)	Rende (Cosenza, Italy)	EUR	769,585	2.00 98.00	FINSIEL BANKSIEL
- CENTROSIEL S.p.A. (information systems)	Milan (Italy)	EUR	516,600	47.00	51.00 BANKSIEL
- CONSIEL - Società di Management Consulting e Formazione p.A. (corporate consulting and management services)	Milan (Italy)	EUR	5,148,000	95.50	FINSIEL
- EIS - Elettronica Ingegneria Sistemi S.p.A. (design, installation, operation and maintenance of sophisticated electronic systems)	Rome (Italy)	EUR	5,165,000	100.00	FINSIEL
- FINSIEL ROMANIA S.r.l. (information systems)	Bucharest (Romania)	ROL	11,841,500,000	90.53	FINSIEL
- INSIEL - Informatica per il Sistema degli Enti Locali S.p.A. (information systems)	Trieste (Italy)	EUR	7,755,000	52.00	FINSIEL
- INTERSIEL - Società Interregionale Sistemi Informativi Elettronici S.p.A. (design, installation, operation and maintenance of information systems)	Rende (Cosenza, Italy)	EUR	1,033,000	100.00	FINSIEL
- KRENESIEL - Società Sarda di Informatica S.p.A. (information systems)	Sassari (Italy)	EUR	2,582,300	41.00 10.00	FINSIEL INSIEL
- NETIKOS S.p.A. (information systems)	Rome (Italy)	EUR	13,416,000	75.00 25.00	FINSIEL IT TELECOM
- NETIKOS Finland OY (development of wireless solutions)	Helsinki (Finland)	EUR	10,700	100.00	NETIKOS
- SOGEI - Società Generale d'Informatica S.p.A. (information systems and related services for the Ministry of Finances and Italian and foreign public Administration)	Rome (Italy)	EUR	10,330,000	100.00	FINSIEL
- TELE SISTEMI FERROVIARI S.p.A. (information systems)	Rome (Italy)	EUR	77,003,669.54	61.00	FINSIEL
- VENIS - VENEZIA INFORMATICA E SISTEMI S.p.A. (information systems for the municipality of Venice and other public entities)	Venice (Italy)	EUR	1,549,500	20.40 30.60	FINSIEL INSIEL
- WEBRED S.p.A. (former CRUED S.p.A.) (information systems)	Perugia (Italy)	EUR	1,560,000	51.00	FINSIEL
NETSIEL - Networks Produttivi per Sistemi Informativi Elettronici S.p.A. (information products and production of software for sale)	Bari (Italy)	EUR	65,073,960	68.65 31.35	TELECOM ITALIA FINSIEL

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- SIBISIEL - Società di Informatica per la Banca e l'Impresa S.p.A. (information systems)	Bari (Italy)	EUR 1,032,920	90.20 9.80		NETSIEL SIBISIEL
SODALIA S.p.A. (production of advanced software for telecommunications networks and services)	Trento (Italy)	EUR 3,099,000	100.00		TELECOM ITALIA
- SODALIA NORTH AMERICA Inc. (former TELESOFT AMERICA Inc.) (telecommunications software)	Virginia (USA)	USD 700,000	100.00		SODALIA
TELESOFT S.p.A. (telecommunications software)	Rome (Italy)	EUR 21,060,000	60.00 40.00		TELECOM ITALIA FINSIEL
- EUSTEMA S.p.A. (design, research, development and marketing of software, information and online systems)	Rome (Italy)	ITL 600,000,000	67.33		TELESOFT
- TECO SOFT ESPAÑA S.A. (telecommunications software)	Madrid (Spain)	ESP 60,000,000	100.00		TELESOFT
- TELESOFT HELLAS S.A. (telecommunications software)	Maroussi-Athens (Greece)	GRD 20,000,000	100.00		TELESOFT
- TELESOFT RUSSIA ZAO (telecommunications software)	Moscow (Russia)	RUB 1,592,000	75.00		TELESOFT

Satellite Services

TELESPAZIO S.p.A. (satellite telecommunications services)	Rome (Italy)	EUR 50,000,000	100.00		TELECOM ITALIA
- CENTRO DI TELERILEVAMENTO MEDITERRANEO - S.c.p.a. (research)	Palermo (Italy)	EUR 949,000	51.00		TELESPAZIO
- e-GEOS S.p.A. (earth observation activities)	Matera (Italy)	EUR 105,000	53.00 2.00		TELESPAZIO EURIMAGE
- EURIMAGE S.p.A. (distribution and sale of remote sensing data)	Rome (Italy)	EUR 4,386,000	51.00		TELESPAZIO
- EUROPEAN COMPANY FOR MOBILE COMMUNICATION SERVICES B.V. (satellite data transmission, messages and localization)	Amsterdam (Holland)	EUR 16,881,882	72.01		TELESPAZIO
- EUROPEAN COMPANY FOR MOBILE COMMUNICATION OPERATIONS B.V. (mobile telephony services)	Amsterdam (Holland)	EUR 45,500	100.00		EUROPEAN COMPANY FOR MOBILE COMM.SERVICES
- TELESPAZIO BRASIL S.A. (former DAMOS SUDAMERICA S.A.) (satellite telecommunications services)	Rio de Janeiro (Brazil)	BRL 34,520,000	87.48 1.39		TELESPAZIO ENTEL CHILE
- TELESPAZIO LUXEMBOURG S.A. (holding company)	Luxembourg	USD 245,260,800	100.00		TELESPAZIO
- TELESPAZIO NORTH AMERICA Inc. (activities regarding satellite telecommunications)	Delaware (USA)	USD 10	100.00		TELESPAZIO

TILAB

TELECOM ITALIA LAB S.p.A. (former CSELT S.p.A.) (studies, research and venture capital in telecommunications and electronics)	Turin (Italy)	EUR 25,500,000	100.00		TELECOM ITALIA
- LOQUENDO - SOCIETA' PER AZIONI (research, development and trading of technologies and equipments regarding vocal recognition and interaction)	Turin (Italy)	EUR 3,573,190	84.38		TELECOM ITALIA LAB S.p.A.
- TELECOM ITALIA LAB GENERAL PARTNER S.A. (holding company)	Luxembourg	USD 30,000	99.97 0.03		TELECOM ITALIA LAB S.p.A. Fiduciari
- TELECOM ITALIA LAB S.A. (holding company)	Luxembourg	USD 25,894,360	99.99 0.01		TELECOM ITALIA LAB S.p.A. Fiduciari
- TELECOM ITALIA LAB B.V. (former TMI NETHERLANDS B.V.) (holding company)	Amsterdam (Holland)	EUR 18,655	100.00		TELECOM ITALIA LAB S.A.

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- TELS Y Elettronica e Telecomunicazioni S.p.A. (manufacturing and sale of systems for encrypted telecommunications)	Turin (Italy)	EUR 390,000	100.00		TELECOM ITALIA LAB S.p.A.
Other operations					
EMSA - Società Immobiliare p.A. (real estate management)	Turin (Italy)	ITL 1,123,596,000	100.00		TELECOM ITALIA
IMMSI S.p.A. (real estate management)	Turin (Italy)	EUR 114,400,000	45.31		TELECOM ITALIA
SAIAT- Società Attività Intermedie Ausiliarie Telecomunicazioni p.A. (financing)	Turin (Italy)	EUR 35,745,120	100.00		TELECOM ITALIA
SCUOLA SUPERIORE GUGLIELMO REISS ROMOLI S.p.A. (professional training)	L'Aquila (Italy)	ITL 3,000,000,000	100.00		TELECOM ITALIA
- CONSEL DO BRASIL Ltda (consulting and information systems)	São Paulo (Brazil)	BRL 174,040	99.99 0.01		SSGRR Fiduciari
SOFT E S.A. (financing)	Luxembourg	USD 100,000,000	99.99 0.01		TELECOM ITALIA SAIAT
- SOGERIM S.A. (marketing and financing)	Luxembourg	EUR 525,000	99.95 0.05		SOFT E SAIAT
TECNO SERVIZI MOBILI S.r.l. (former HITECO CONSULTANTS S.r.l.) (real estate management)	Rome (Italy)	EUR 26,000	51.00		TELECOM ITALIA
TELE PAY ROLL SERVICES S.p.A. (information systems for payroll services)	Rome (Italy)	EUR 2,840,000	100.00		TELECOM ITALIA
TELIMM S.p.A. (real estate management)	Turin (Italy)	ITL 8,238,730,000	99.42 0.58		SAIAT TELECOM ITALIA
TI MEDIA S.A. (holding company)	Luxembourg	EUR 4,309,578	99.999 0.001		TELECOM ITALIA SOFT E
- HUIT II S.a.r.l. (holding company)	Luxembourg	ITL 39,838,500,000	100.00		TI MEDIA
- ISM S.r.l. (holding company)	Milan (Italy)	EUR 10,000	100.00		HUIT II
- N.V. VERTICO (holding company)	Brussels (Belgium)	EUR 69,440	100.00		ISM
TRAINET S.p.A. (development, operation and sales of lines teaching systems)	Rome (Italy)	EUR 674,445.70	100.00		TELECOM ITALIA

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LIST OF COMPANIES VALUED BY THE EQUITY METHOD

Name (type of business)	Head office	Share capital	% of ownership	% of voting rights	Held by
SUBSIDIARIES					
BUFFETTI S.r.l. (retail trade of stationary, books, office kits)	Rome (Italy)	EUR	10,000	100.00	GRUPPO BUFFETTI
EDOTEL S.p.A. (holding company)	Turin (Italy)	EUR	1,020,000	60.00 40.00	TELECOM ITALIA TELECOM ITALIA MOBILE
GOALLARS B.V. (management of an Internet site)	Amsterdam (Holland)	EUR	100,000	55.00	MATRIX
MEDIA PRISME ESPAGNE S.A. (analysis, management and sale of data base)	Madrid (Spain)	EUR	30,490	100.00	MEDIA PRISME
RARTEL S.A. (satellite telecommunications services)	Bucharest (Romania)	ROL	4,685,000,000	51.06	TELESPAZIO
SEAT CAPITAL INVESTMENTS S.A. (financing)	Luxembourg	EUR	5,384,500	99.99	SEAT PAGINE GIALLE
TELECOM ITALIA CAPITAL S.A. (financing)	Luxembourg	USD	1,000,000	99.999 0.001	TELECOM ITALIA SOGERIM
TELEFONIA MOBILE SAMMARINESE S.p.A. (mobile telecommunications)	Republic of San Marino	EUR	78,000	51.00	INTELCOM SAN MARINO
THINX-SM TELEHOUSE INTERNET EXCHANGE S.A. (housing and hosting)	Republic of San Marino	EUR	1,550,000	60.00	INTELCOM SAN MARINO
TELEOS B.V. (operative holding company)	Amsterdam (Holland)	EUR	18,151.21	100.00	TELESPAZIO
TELEOS INTERNATIONAL B.V. (marketing of products and services for satellite mobile communications)	Amsterdam (Holland)	EUR	18,151.21	100.00	TELEOS
AFFILIATED COMPANIES					
@LIVE S.r.l. (process manager training regarding e-business models)	Turin (Italy)	EUR	10,000	100.00	WEBEGG
ARAGÓN DE CABLE S.A.U. (catv operator and fixed lines telecommunications in the district of Aragona)	Saragozza (Spain)	EUR	30,250,000	100.00	AUNA
ASCAI SERVIZI S.r.l. (promotion of communications strategies and process)	Rome (Italy)	EUR	73,336.84	35.21	SAIAT
ASTELIT Ltd (mobile telecommunications services)	Moscow (Russia)	RUB	500	50.00	TELECOM ITALIA
ASTROLINK INTERNATIONAL LLC (satellite telecommunications services)	Delaware (USA)	USD	1,350,100,000	18.52	TELESPAZIO LUX.
AUNA OPERADORES DE TELECOMUNICACIONES S.A. (holding of telecommunications companies)	Barcelona (Spain)	EUR	1,443,556,264	22.77 3.81 0.31	STET INTERNATIONAL NETHERLANDS TIM INTERNATIONAL MULTIMEDIA CABLE
AUNA CABLE S.A.U. (management of a cable)	Madrid (Spain)	EUR	60,102	100.00	AUNA
BDT - BOUYGUES DECAUX TELECOM S.A. (holding company)	Guyancourt (France)	EUR	294,356,302.32	19.61	TIM INTERNATIONAL
BOUYGUES TELECOM S.A. (mobile telephony operator)	Boulogne Billancourt (France)	EUR	560,679,600	55.00	BDT-BOUYGUES DECAUX TELECOM
BRASIL TELECOM PARTICIPAÇÕES S.A. (holding company for investments in wireline telecommunications companies in some Brazilian states)	Brasilia (Brazil)	BRL	2,232,640,907	19.27	52.26 SOLPART PARTICIPAÇÕES
BRASIL TELECOM S.A. (local and regional long-distance telecommunications in 10 States of the centre-south Brazil)	Brasilia (Brazil)	BRL	3,296,179,189	65.47	98.66 BRASIL TELECOM PARTICIPAÇÕES
BROAD BAND SERVICE S.A. (production and sales of multimedia services)	Republic of San Marino	EUR	258,000	20.00 20.00	INTELCOM SAN MARINO STREAM

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BrT Serviços de Internet S.A.. (mobile telecommunications)	Brasília (Brazil)	BRL 18,341,000	100.00		BRASIL TELECOM
BUENAVENTURA S.A. (telecommunications services)	Santiago (Chile)	CLP 1,787,629,330	50.00		ENTEL TELEFONIA PERSONAL
CABLE INSIGNIA S.A. (telecommunications services)	Asuncion (Paraguay)	PYG 2,600,000,000	75.00		TELECOM ARGENTINA
CABLE I TELEVISIÓ DE CATALUNYA, S.A.U. (catv operator and fixed lines telecommunications in the district of Catalunya)	Barcelona (Spain)	EUR 144,091,710	100.00		AUNA
CABLETELCA S.A. (catv operator and fixed lines telecommunications in the Canary Islands)	Tenerife (Spain)	EUR 40,744,263	100.00		AUNA
CARTESIA-Cartografia digitale S.p.A. (design, realization, marketing of numeric cartography)	Rome (Italy)	EUR 1,032,800	50.00		TELECOM ITALIA
CEDAC S.r.l. (management of available data from the public real estate Registry and from other public bodies)	Brescia (Italy)	EUR 10,400	30.00		DATA HOUSE
CIFRA S.c.a r.l. (training and advanced research relating to information technology)	Cagliari (Italy)	EUR 61,976	25.00		KRENESIEL
CIRMATICA GAMING S.A. (management of on-line gaming at national level)	Barcelona (Spain)	EUR 54,155,990	100.00		LOTTOMATICA
CONSULTEQUE S.p.A. (consulting to professional operators through highly technological communication systems)	Milan (Italy)	EUR 403,877	44.44		MATRIX
CRM CONSULTING GmbH (mailing list activities)	Mainz (Germany)	EUR 33,600	25.30		PAN ADRESS DIREKTMARK. & Co. KG
CSF Sistemi S.r.l. (network supporting the pharmacy sector)	Anagni (Frosinone, Italy)	EUR 1,186,000	30.00		MATRIX
CYGENT Inc. (development and sale of software)	California (USA)	USD 52,374,000	23.89		TELECOM ITALIA LAB B.V.
CZECH ONLINE AS (Internet services)	Prague (Czech Republic)	CZK 114,000,000	100.00		TELEKOM AUSTRIA
DATAKOM AUSTRIA GmbH (data services)	Vienna (Austria)	EUR 14,535,000	100.00		TELEKOM AUSTRIA
DATAKOM INTERNATIONAL SOLUTIONS GmbH (project development)	Vienna (Austria)	EUR 145,400	100.00		DATAKOM AUSTRIA
DATASIEL - Sistemi e Tecnologie di Informatica S.p.A. (data processing products and services for public administration agencies, institutions and enterprises under Ligurian Regional Law n. 17/85)	Genoa (Italy)	EUR 2,582,500	50.00		FINSIEL
DATASPAZIO - S.p.A. (computational software and hardware development and sale)	Rome (Italy)	EUR 506,000	49.00		TELESPAZIO
DATATRADER S.A. (creation and sale of data base)	Rueil Mailmaison (France)	EUR 266,980	50.00		CONSODATA S.A.
DISCOVERITALIA S.p.A. (management of an Internet site dedicated to tourism)	Novara (Italy)	EUR 5,160,000	25.00		SEAT PAGINE GIALLE
DOMUS ACADEMY S.p.A. (professional training in the field of fashion, industrial design and web design)	Milan (Italy)	EUR 140,000	51.00		WEBEGG
EISYS S.p.A. (information systems)	Rome (Italy)	EUR 619,200	25.00		EIS
ERESMAS INTERACTIVA S.A. (Internet operator for the residential customers of the Auna Group)	Madrid (Spain)	EUR 14,527,616	99.72		AUNA
ESRI ITALIA S.p.A. (development and distribution of services based on the GIS - "Geographical Information Systems" technology)	Rome (Italy)	EUR 500,000	49.00		SEAT PAGINE GIALLE

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ETEC S.A. – Empresa de Telecomunicaciones de Cuba S.A. (telecommunications services)	La Habana (Cuba)	USD 1,441,900,000	29.29		STET INTERNATIONAL NETHERLANDS
EURODIRECTORY S.A. (holding company in the field of publishing)	Luxembourg	EUR 1,625,320	50.00		SEAT PAGINE GIALLE
EXPERT SYSTEM S.p.A. (development of a linguistic software)	Modena (Italy)	EUR 143,999.96	35.00		MATRIX
FINTECH FINANZIARIA TECNOLOGICA S.p.A. (minority interests holding in small and medium sized companies)	Turin (Italy)	EUR 25,820,000	50.00		TELECOM ITALIA LAB S.p.A.
GAY.IT S.p.A. (management of an Internet site)	Pisa (Italy)	EUR 1,000,000	22.50		MATRIX
GEOWEB S.p.A. (information systems)	Rome (Italy)	EUR 516,500	40.00		SOGEI
GLB SERVIÇOS INTERATIVOS S.A. (Internet services)	Rio de Janeiro (Brazil)	BRL 182,672,123	28.57		TI WEB
GOLDEN LINES INTERNATIONAL COMMUNICATIONS SERVICES Ltd (long distance telephony services)	Ramat Gan (Israel)	ILS 3,000,000	26.40		STET INTERNATIONAL NETHERLANDS
ICOM Inc. (sale of e-mail marketing programs)	Toronto (Canada)	CAD 203.09	40.00		NETCREATIONS
IM.SER S.p.A. (real estate management)	Rome (Italy)	EUR 144,480,000	40.00		TELECOM ITALIA
INFORMATICA TRENTINA S.p.A. (design, installation, management and maintenance of information systems)	Trento (Italy)	EUR 3,100,000	40.41		FINSIEL
ISCE Investor in Sapient & Cuneo Europe S.A. (consulting)	Luxembourg	EUR 4,334,400	25.00		SEAT CAPITAL INVESTMENTS
IS TIM TELEKOMUNIKASYON HIZMETLERI A.S. (mobile telephony operator)	Istanbul (Turkey)	TRL 545,000,000,000,000	49.00		TIM INTERNATIONAL
ITALCOM S.p.A. (multimedia systems and devices)	Milan (Italy)	EUR 103,200	100.00		ITALTEL S.p.A.
ITALDATA S.p.A. (solutions and services for the web economy)	Avellino (Italy)	EUR 3,096,000	100.00		SIEMENS INFORMATICA
ITALTEL A.O. (telecommunications systems)	Saint Petersburg (Russia)	RUB 20,000	100.00		ITALTEL B.V.
ITALTEL ARGENTINA S.A. (telecommunications systems)	Buenos Aires (Argentina)	ARS 600,000	96.00 4.00		ITALTEL B.V. ITALTEL S.p.A.
ITALTEL BRASIL Ltda (trade company)	São Paulo (Brazil)	BRL 2,018,302	51.44 48.56		ITALTEL S.p.A. ITALTEL B.V.
ITALTEL B.V. (trade and financial company)	Amsterdam (Holland)	EUR 6,000,000	100.00		ITALTEL S.p.A.
ITALTEL CERM PALERMO S.c.p.a. (research)	Palermo (Italy)	EUR 2,125,000	90.00 10.00		ITALTEL S.p.A. TELECOM ITALIA LAB S.p.A.
ITALTEL DE CHILE S.A. (telecommunications systems)	Santiago (Chile)	CLP 49,682,094	90.00 10.00		ITALTEL B.V. ITALTEL S.p.A.
ITALTEL DEUTSCHLAND GmbH (trade company)	Düsseldorf (Germany)	EUR 40,000	60.00 40.00		ITALTEL HOLDING ITALTEL B.V.
ITALTEL FRANCE S.a.s. (trade company)	Issy (France)	EUR 40,000	100.00		ITALTEL HOLDING
ITALTEL HOLDING S.p.A. (holding company)	Milan (Italy)	EUR 115,371,464	19.39		SOGERIM
ITALTEL KENYA Ltd (telecommunications systems)	Nairobi (Kenya)	KES 500,000	99.99 0.01		ITALTEL B.V. ITALTEL S.p.A.
ITALTEL NIGERIA Ltd (telecommunications systems)	Lagos (Nigeria)	NGN 2,000,000	99.99 0.01		ITALTEL B.V. ITALTEL S.p.A.
ITALTEL S.A. (telecommunications systems)	Madrid (Spain)	EUR 4,056,750	100.00		ITALTEL B.V.
ITALTEL S.p.A. (former ITALTEL ACQUISITION S.p.A.) (telecommunications systems)	Milan (Italy)	EUR 196,830,400	100.00		ITALTEL HOLDING

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ITALTEL UK Ltd (trade company)	Staines (UK)	GBP 26,000	60.00 40.00		ITALTEL HOLDING ITALTEL B.V.
JET2WEB INTERNET SERVICES GmbH (Internet services)	Vienna (Austria)	EUR 15,000,000	97.50		TELEKOM AUSTRIA
JET2WEB NETWORK SERVICES GmbH (network services)	Vienna (Austria)	EUR 70,000	100.00		TELEKOM AUSTRIA
JMAC CONSIEL S.p.A. (data collection and analysis for systems sales and business)	Milan (Italy)	EUR 156,000	45.00		CONSIEL
LOTTOLATINO C.A. (management of on-line gaming at national level)	Caracas (Venezuela)	VEB 1,172,722,103	99.00		LOTTOMATICA INTERNATIONAL
LOTTOLATINO DO BRASIL S.A. (management of the federal lottery)	São Paulo (Brazil)	BRL 10,000	99.00		LOTTOMATICA INTERNATIONAL
LOTTOMATICA ARGENTINA S.A. (management of on-line gaming at national level)	Buenos Aires (Argentina)	ARS 12,000	100.00		LOTTOMATICA INTERNATIONAL
LOTTOMATICA INTERNATIONAL S.p.A. (management of lottery and on-line lottery)	Rome (Italy)	ITL 2,600,000,000	100.00		LOTTOMATICA
LOTTOMATICA ITALIA SERVIZI S.p.A. (services for citizens and companies and management of ticket sale for any sport event)	Rome (Italy)	ITL 5,000,000,000	100.00		LOTTOMATICA
LOTTOMATICA SISTEMI S.p.A. (management of local data centers)	Rome (Italy)	ITL 10,000,000,000	100.00		LOTTOMATICA
LOTTOMATICA S.p.A. (automation system for the lottery)	Rome (Italy)	EUR 88,131,780	18.33		FINSIEL
LOTTO TOTTO C.A. (management of lottery and on-line lottery)	Caracas (Venezuela)	VEB 61,506,404	100.00		LOTTOLATINO
MADRITEL S.A.U. (catv operator and fixed lines telecommunications in the community of Madrid)	Madrid (Spain)	EUR 162,423,513	100.00		AUNA
MAREMS S.A. (provision of satellite services for mobile voice communications using vehicle-mounted terminals)	Moscow (Russia)	RUB 7,135,500	49.00		TELESPAZIO
MARCAM ITALY S.r.l. (services for automatical data management)	Milan (Italy)	ITL 180,000,000	99.00		PRAXIS CALCOLO
MESNILL HOLDING S.A. (holding company)	Luxembourg	FB 78,000	99.99		ISCE
MIA ECONOMIA.com S.r.l. (publishing in the field of personal finance)	Milan (Italy)	EUR 1,500,000	30.00		MATRIX
MICRO SISTEMAS S.A. (telecommunications services)	Buenos Aires (Argentina)	ARS 210,000	99.99 0.01		TELECOM ARGENTINA PUBLICOM
MIRROR INTERNATIONAL HOLDING S.a.r.l. (holding company)	Luxembourg	EUR 250,000	30.00		TELECOM ITALIA
MIRROR INTERNATIONAL GmbH (holding company)	Frankfurt (Germany)	EUR 25,000	100.00		MIRROR INTERN. HOLDING
MOBILKOM AUSTRIA Aktiengesellschaft & Co. KG (mobile telephony operator)	Vienna (Austria)	EUR 79,940,117.59	75.00 25.00		TELEKOM AUSTRIA AUTEL BETEILIGUNGS
MOBILKOM INTERNATIONAL GmbH (holding company)	Vienna (Austria)	EUR 35,000	100.00		MOBILKOM AUSTRIA
MOBILKOM INTERNATIONAL GmbH & Co. KG (holding company)	Vienna (Austria)	EUR 35,350	99.00 1.00		MOBILKOM AUSTRIA MOBILKOM INTERNATIONAL GmbH
MOBILKOM LIECHTENSTEIN A.G. (mobile telephony operator)	Vaduz (Liechtenstein)	CHF 200,000	100.00		MOBILKOM AUSTRIA
MONDUS AB (development of data banks and market place through Internet)	Bromma (Sweden)	SEK 100,000	100.00		MONDUS LTD
MONDUS.COM Inc. (development of data banks and market place through Internet)	Delaware (USA)	USD 100	100.00		MONDUS LTD
MONDUS.DE GmbH (development of data banks and market place through Internet)	Hamburg (Germany)	EUR 25,000	100.00		MONDUS LTD

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MONDUS.FR S.A. (development of data banks and market place through Internet)	Paris (France)	EUR 7,630	100.00		MONDUS LTD
MONDUS Ltd (development of data banks and market place through Internet)	Oxford (UK)	GBP 1,879.9	46.44		SEAT PAGINE GIALLE
MONDUS OY (development of data banks) and market place through Internet	Helsinki (Finland)	EUR 8,000	100.00		MONDUS LTD
MOVENDA S.p.A. (technological platforms for the development of mobile Internet services)	Rome (Italy)	EUR 133,333	25.00		TELECOM ITALIA LAB B.V.
MULTIMEDIA CABLE S.A. (holding company for investments in telecommunications companies and multimedia systems)	Barcelona (Spain)	EUR 11,635,594	44.00		STET INTERNATIONAL NETHERLANDS
NEPTUNY S.p.A. (analysis of the performance of Internet sites)	Milan (Italy)	EUR 17,986.80	39.00		MATRIX
NETCO REDES S.A. (provider of telecommunications infrastructures)	Madrid (Spain)	EUR 6,038,248	30.00		STET INTERNATIONAL NETHERLANDS
NETEX S.r.l. (activities relating to the contract regarding the licence of the software of Netex Ltd)	Milan (Italy)	EUR 10,000	50.00		MATRIX
NORDCOM S.r.l. (application service provider)	Milan (Italy)	EUR 90,000	42.00		TELECOM ITALIA
NORTEL INVERSORA S.A. (holding company)	Buenos Aires (Argentina)	ARS 80,942,695	16.58 8.94	32.50 17.50	TELECOM ITALIA STET INTERNATIONAL NETHERLANDS
NUCLEO S.A. (telecommunications services)	Asuncion (Paraguay)	PYG 160,000,000,000	67.50		TELECOM PERSONAL
PERFORMER S.p.A. (consulting relating to e-business solutions and IT systems)	Turin (Italy)	EUR 100,000	100.00		WEBEGG
PRAXIS CALCOLO S.p.A. (technical and organizational services for automatic data processing)	Milan (Italy)	EUR 1,056,000	22.50		FINSIEL
PROSISTEMI S.r.l. (management of available data from the public real estate Registry and from other public bodies)	Milan (Italy)	EUR 10,400	33.35		ITALSERVICE S.r.l.
PUBLICOM S.A. (telecommunications services)	Buenos Aires (Argentina)	ARS 16,000,000	99.99 0.01		TELECOM ARGENTINA NORTEL INVERSORA
RETEVISION I S.A.U. (telecommunications services)	Barcelona (Spain)	EUR 252,241,612	100.00		AUNA
RETEVISION MOVIL S.A. (third mobile telephony operator)	Barcelona (Spain)	EUR 245,000,000	97.90		AUNA
RONCADIN RESTAURANTS S.p.A. (home delivery restaurant services)	Fiume Veneto (Pordenone, Italy)	EUR 920,694.32	25.00		SEAT PAGINE GIALLE
SAPED – Studio Analisi Programmazione Elaborazione Dati S.p.A. (information systems)	Siena (Italy)	EUR 1,032,800	20.00		BANKSIEL
SAPENDI S.p.A. (sale of publishing, graphic and data bank products)	Novara (Italy)	EUR 5,160,000	25.00		SEAT PAGINE GIALLE
SIEMENS INFORMATICA S.p.A. (software furnishing and information technology consulting)	Milan (Italy)	EUR 6,192,000	49.00		TELECOM ITALIA
SIOSISTEMI S.p.A. (systems networking with special emphasis on the design of LAN and WAN systems and related hardware support systems)	Brescia (Italy)	EUR 260,000	40.00		TELECOM ITALIA LAB S.p.A.
SI.MOBIL d.d. (mobile telephony operator)	Lubijana (Slovenia)	SIT 9,300,000,000	75.00		MOBILKOM INTERNATIONAL GmbH & Co. KG
SISPI S.p.A. (information systems for the municipality of Palermo and other private and public entities)	Palermo (Italy)	EUR 2,066,000	49.00		FINSIEL

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SITEBA Sistemi Telematici Bancari S.p.A. (support services for payments systems)	Milan (Italy)	ITL 5,000,000,000	30.00		TELECOM ITALIA
SITECNICA S.p.A. (multivendor maintenance)	Milan (Italy)	EUR 143,000	100.00		SIEMENS INFORMATICA
SITEKNE S.p.A. (solutions for ITC-Information Technology Communication)	Rome (Italy)	EUR 103,200	100.00		SIEMENS INFORMATICA
SOFTWARE FACTORY S.p.A. (furnishing of personal technical solutions)	Milan (Italy)	EUR 1,500,000	100.00		WINNER PROJECT
SOLPART PARTICIPAÇÕES S.A. (holding company for investment in Brasil Telecom Participações S.A.)	Rio de Janeiro (Brazil)	BRL 2,097,008,023	37.76	37.29	STET INTERNATIONAL NETHERLANDS
STREAM S.p.A. (multimedia services)	Rome (Italy)	EUR 421,360,000	50.00		TELECOM ITALIA
SUPERCABLE DE ALMERIA S.A. (catv operator and fixed lines telecommunications in the city of Almeria)	Sevilla (Spain)	EUR 1,202,000	100.00		AUNA
SUPERCABLE DE ANDALUCIA S.A. (catv operator and fixed lines telecommunications in the district of Andalucia)	Sevilla (Spain)	EUR 69,272,655	96.36		AUNA
SUPERCABLE DE SEVILLA S.A. (catv operator and fixed lines telecommunications in the city of Sevilla)	Sevilla (Spain)	EUR 32,749,150	98.17		AUNA
TDL BELGIUM S.A. (publishing and sale of directories)	Brussels (Belgium)	FB 750,087,200	49.60		TDL INVESTMENTS
TELEAP S.p.A. (furnishing of services and applications through traditional media and customer services)	Ivrea (Turin, Italy)	EUR 1,560,000	100.00		WEBEGG
TELECOMMUNICATIONS ADVISER LLC (management of the Saturn Venture Partners fund)	Delaware (USA)	USD 560,280	37.50		TELECOM ITALIA LAB GEN.PARTN.
TELECOM ARGENTINA STET-FRANCE TELECOM S.A. (telecommunications services)	Buenos Aires (Argentina)	ARS 984,380,978	54.74		NORTEL INVERSORA
TELECOM ARGENTINA USA Inc. (telecommunications services)	Delaware (USA)	USD 30,000	100.00		TELECOM ARGENTINA
TELECOM PERSONAL S.A. (telecommunications services)	Buenos Aires (Argentina)	ARS 310,514,481	99.99 0.01		TELECOM ARGENTINA PUBLICOM
TELEKOM AUSTRIA A.G. (wireline telephony)	Vienna (Austria)	EUR 1,090,500,000	29.78		STET INTERNATIONAL NETHERLANDS
TELEKOM AUSTRIA PERSONALMANAGEMENT GmbH (personnel management)	Vienna (Austria)	EUR 70,000	100.00		TELEKOM AUSTRIA
TELEKOM BETEILIGUNGS- und ENTWICKLUNGS GmbH (holding company)	Vienna (Austria)	EUR 35,000	100.00		TELEKOM AUSTRIA
TELEKOM FINANZ-MANAGEMENT GmbH (financing)	Vienna (Austria)	EUR 37,000	100.00		TELEKOM BETEILIGUNGS
TELELEASING – Leasing di Telecomunicazioni e Generale S.p.A. (financial leasing of real estate and other assets)	Milan (Italy)	EUR 9,500,000	20.00		SAIAT
TELEIMPULS GmbH (mobile telephony operator)	Ljubljana (Slovenia)	SIT 2,100,000,000	100.00		MOBILKOM INTERNATIONAL GmbH & Co. KG
TELEKOM SRBIJA a.d. (telecommunications services)	Belgrade (Serbia)	YUM 10,800,000,000	29.00		STET INTERNATIONAL NETHERLANDS
TELEMACO IMMOBILIARE S.p.A. (real estate management)	Rome (Italy)	EUR 9,600,000	40.00		TELECOM ITALIA
TWIN S.p.A. (managing activities relating to the TRIS horse races and to the national totalizator)	Rome (Italy)	ITL 5,000,000,000	93.77		LOTTOMATICA
UBA – NET S.A. (teledidactic services)	Buenos Aires (Argentina)	ARS 12,000	50.00		TRAINET
USABLENET Inc. (development of a software for the analysis of web sites)	Delaware (USA)	USD 1.25	20.00		TELECOM ITALIA LAB B.V.

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» **List of companies valued by the equity method**

Name (type of business)	Head office	Share capital	ownership	% of voting rights	Held by
VIASAT ASSISTANCE S.p.A. (trade and operational management of telecommunications)	Rome (Italy)	EUR 103,200	100.00		VIASAT
VIASAT S.p.A. (realization, installation and maintenance of networks)	Rome (Italy)	EUR 2,425,956	33.54 16.46		SEAT PAGINE GIALLE FINSATEL
VINTEL S.r.l. (management of available data from the public real estate Registry and from other public bodies)	Como (Italy)	EUR 36,400	25.00		DATA HOUSE
VIP-NET GSM d.o.o. (mobile telephony operator)	Zagreb (Croatia)	HRK 454,211,000	66.00		MOBILKOM AUSTRIA
WEBEGG S.p.A. (information systems)	Ivrea (Turin, Italy)	EUR 33,107,160	30.20 19.80		FINSIEL IT TELECOM
WINNER PROJECT B.V. (furnishing of personalized technical solutions)	Rotterdam (Holland)	EUR 18,000	100.00		WEBEGG
WISEQUITY N.V. (holding company)	Amsterdam (Holland)	EUR 50,000	50.00		SEAT CAPITAL INVESTMENTS

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LIST OF OTHER SUBSIDIARIES AND AFFILIATED COMPANIES

Name (type of business)	Head office	Share capital	% of ownership	% of voting rights	Held by
SUBSIDIARIES					
ARTES S.r.l. (in liquidation) (telecommunications services)	Florence (Italy)	EUR	1,693,978.62	99.975	HOLDING MEDIA E COMUNICAZIONE HMC
ASKA S.r.l. (in liquidation) (research and selection of human resources and consulting)	Milan (Italy)	EUR	10,400	60.00	CONSIEL
BUSINESS INFORMATION GROUP Ltd (publishing and sale of telephone directories)	Hampshire (UK)	GBP	1	100.00	THOMSON DIRECTORIES
CABESTAN S.A. (in liquidation) (mailing list activities)	Suresnes (France)	FRF	250,000	100.00	CONSODATA S.A.
COMSTAR S.r.l. (in liquidation) (sale and installation of EDP products)	Rome (Italy)	EUR	1,020,000	100.00	TELESPAZIO
CONSODATA INTERACTIVE S.A. (business information services)	Levallois Perret (France)	EUR	40,000	100.00	CONSODATA S.A.
CONSODATA SYSTEME S.A. (business information services)	Levallois Perret (France)	EUR	40,000	100.00	CONSODATA S.A.
CONSULTEL S.p.A. (in liquidation) (consulting in the field of telecommunications)	Rome (Italy)	ITL	2,594,340,000	100.00	TELECOM ITALIA
EMAX-TRADE S.p.A. (in liquidation) (management of Internet sites)	Milan (Italy)	EUR	100,000	100.00	MATRIX
EMMEDI 97 S.r.l. (in liquidation) (productions for the paper industry)	Rome (Italy)	EUR	10,400	100.00	GRUPPO BUFFETTI
ERICH Ltd (furnishing of services)	Kingston (UK)	GBP	2	100.00	CAL- CONSUMER ACCES Ltd
FINSIEL HELLAS S.A. (in liquidation) (computer products for public and private customers)	Koropi (Greece)	GRD	230,000,000	91.00	FINSIEL
FOREST RENTAL SERVICES Ltd (furnishing of services)	Hampshire (UK)	GBP	2	100.00	THOMSON DIRECTORIES
GIALLO e.com S.p.A. (creation and diffusion of trade information)	Turin (Italy)	EUR	150,000	100.00	SEAT PAGINE GIALLE
HILL CLEANING SERVICES Ltd (furnishing of services)	Hampshire (UK)	GBP	2	100.00	THOMSON DIRECTORIES
HILL ENTERPRISES Ltd (furnishing of services)	Hampshire (UK)	GBP	2	100.00	THOMSON DIRECTORIES
IC SOFT S.p.A. (in liquidation) (projects, installation and management in the field of EDP)	Naples (Italy)	ITL	200,000,000	100.00	FINSIEL
IL CENTRO CONTABILE S.p.A. (in liquidation) (sale of books and office ware)	Rome (Italy)	EUR	2,233,507.26	89.70	GRUPPO BUFFETTI
INCAS FRANCE S.A. (in liquidation) (sale of products for office automation)	Asnieres (France)	FRF	19,168,900	100.00	IS PRODUCTS
INDUSTRIAS TELEPUERTO DEL ISTMO S.A. (carrier of telecommunications)	Panama	USD	1,000	100.00	AMERICATEL CENTROAMERICA
INDUSTRIAS TELEPUERTO ICAN S.A. (carrier of telecommunications)	San Jose (Costarica)	CRC	10,000	100.00	AMERICATEL CENTROAMERICA
INFOMEDIA GROUP Ltd (publishing and sale of telephone directories)	Hampshire (UK)	GBP	2	100.00	THOMSON DIRECTORIES
INFONATION GROUP Ltd (publishing and sale of telephone directories)	Hampshire (UK)	GBP	1	100.00	THOMSON DIRECTORIES
IREOS S.p.A. (in liquidation) (promotion and management of remote domiciliary assistance)	Rome (Italy)	ITL	200,000,000	100.00	TELECOM ITALIA
IRIDIUM ITALIA S.p.A. (in liquidation) (satellite telecommunications services)	Rome (Italy)	EUR	2,575,000	30.00 35.00 35.00	TELECOM ITALIA TELESPAZIO TELECOM ITALIA MOBILE
LAKE BUILDING SERVICES Ltd (furnishing of services)	Hampshire (UK)	GBP	2	100.00	THOMSON DIRECTORIES
LIVING LIFESTYLE Ltd (furnishing of services)	Kingston (UK)	GBP	2	100.00	CAL- CONSUMER ACCES Ltd

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» **List of other subsidiaries and affiliated companies**

Name (type of business)	Head office	Share capital	% of ownership	% of voting rights	Held by
LOQUENDO Inc. (in liquidation) (development of software for web vocal interaction)	California (USA)	USD	14,021,000	100.00	LOQUENDO SpA
MARKET & INDUSTRY ANALYSTS S.A. (market analysis)	Brussels (Belgium)	EUR	107,584.26	100.00	DATABANK
MEDITERRANEAN BROAD BAND ACCESS S.A. (telecommunications services)	Heraklion Crete (Greece)	GRD	6,000,000,000	60.00	STET INTERNATIONAL NETHERLANDS
MILANO DATA ENTRY S.r.l. (in liquidation) (data entry activities)	Milan (Italy)	EUR	10,400	100.00	DATA HOUSE
OR.MA INFORMATICA S.r.l. (wholesale of computer products)	Milan (Italy)	EUR	10,200	100.00	SK DIRECT
PEAK MAINTENANCE SERVICES Ltd (furnishing of services)	Hampshire (UK)	GBP	2	100.00	THOMSON DIRECTORIES
RFM DATA Ltd (list broking)	Kingston (UK)	GBP	2	100.00	CAL- CONSUMER ACCES Ltd
SCS COMUNICAZIONE INTEGRATA S.p.A. (in liquidation) (marketing and communication consulting)	Rome (Italy)	EUR	600,000	100.00	SEAT PAGINE GIALLE
SERVICE IN S.r.l. (in liquidation) (furnishing of services)	Milan (Italy)	ITL	20,700,000	95.00	CIPI
STARCEL Ltda (call center services)	São Paulo (Brazil)	BRL	30,000	99.97 0.03	TIM BRASIL Fiduciaries
STET FRANCE S.A. (holding company)	Paris (Francia)	EUR	900,000	100.00	9 TELECOM RESEAU
TECHNOLOGIE INNOVATION ET MOBILITE S.a.r.l. (holding company)	Tunis (Tunisia)	TND	10,000	80.00	TIM INTERNATIONAL
TECO SOFT ARGENTINA S.A. (software for telecommunications)	Buenos Aires (Argentina)	ARS	12,000	99.99	TELESOFT
TELECOM ITALIA IRELAND Ltd (telecommunications services)	Dublin (Ireland)	EUR	2	100.00	TELECOM ITALIA
TELESPAZIO IRELAND Ltd (in liquidation) (holding company)	Dublin (Ireland)	USD	1,000,000	100.00	TELESPAZIO LUX.
THOMSON DIRECTORIES PENSION COMPANY Ltd (management of Thomson Directories Pension fund)	Hampshire (UK)	GBP	2	100.00	THOMSON DIRECTORIES
TIM.COM Holding B.V. (holding company)	Amsterdam (Holland)	EUR	18,000	100.00	TIM INTERNATIONAL
TIMNET.COM PERU' S.A.C. (services for mobile networks)	Lima (Perù)	PEN	1,000	100.00	TIM PERU'
T.I.SCOM S.A. (in liquidation) (telecommunications systems and services)	Curitiba (Brazil)	BRL	7,735,000	51.00	TELESPAZIO
TMI - HUNGARY TRADING AND SERVICES Ltd (in liquidation) (telecommunications services)	Budapest (Hungary)	HUF	3,000,000	100.00	TMI - TELEMEDIA INTERN. Ltd
VALORIUS S.A. (furnishing of services)	Boulogne Billancourt (France)	EUR	38,112	100.00	9 TELECOM RESEAU

AFFILIATED COMPANIES

CITEL - Corporacion Interamericana de Telecomunicaciones S.A. (holding company)	Monterrey (Mexico)	MXN	2,073,729,933	25.00	STET INTERNATIONAL NETHERLANDS
CLIPPER S.p.A. (in liquidation) (marketing and communication consulting)	Rome (Italy)	EUR	100,000	50.00	SCS COM. INTEGR. (in liquidation)
COMETEL Societe Espagnole S.a.r.l. (audiotel services)	Bilbao (Spain)	EUR	210,348	40.00	JET MULTIMEDIA HOSTING
CROMA S.r.l. (in liquidation) (hardware maintenance)	P. San Giovanni (Perugia, Italy)	ITL	80,000,000	50.00	WEBRED
CZECH TELESPAZIO S.r.l. (in liquidation) (telecommunications services)	Prague (Czech Republic)	CZK	750,000	40.00	TELECOM ITALIA
E-UTILE S.p.A. (information technology services for public and private companies)	Milan (Italy)	EUR	100,000	51.00	SIEMENS INFORMATICA

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LOTTOMATICA BALKAN S.A. (in liquidation) (management of on-line gaming at national level)	Sofia (Bulgaria)	BGN	0	100.00	LOTTOMATICA INTERNATIONAL
LOTTOMATICA DEUTSCHLAND GmbH (in liquidation) (management of on-line gaming at national level)	Munich (Germany)	EUR	25,000	100.00	LOTTOMATICA INTERNATIONAL
L'UFFICIO MODERNO S.r.l. (sale of books and office supplies)	Florence (Italy)	EUR	10,400	15.00 15.00	GRUPPO BUFFETTI IL CENTRO CONTABILE
MOBILKOM AUSTRIA Geschäftsführungs Aktiengesellschaft - Stock Corporation (operative coordination)	Vienna (Austria)	EUR	100,000	75.00 25.00	TELEKOM AUSTRIA AUTEL BETEILIGUNGS
NETRIA S.A. (information technology services)	Lyon (France)	EUR	115,633	34.00	JET MULTIMEDIA
POLITEL S.A. (sale of VSAT services)	Warsaw (Poland)	PLN	100,000	10.00 10.00	TMI TELEMEDIA INT. Ltd TELESPAZIO
RESACOM S.A. (mail-order selling and Internet ticket office)	Paris (France)	EUR	40,000	19.97	19.27 JET VENTURE
SUD PARTNER S.a.r.l. (information technology services)	Toulouse (France)	EUR	40,000	24.00	JET MULTIMEDIA HOSTING
VOICEMAIL INTERNATIONAL Inc. (in liquidation) (vocal message services)	California (USA)	USD	48,580	37.07	TELECOM ITALIA

CONSORTIUM SUBSIDIARIES

CONSORZIO ABECA (information systems for the Ministry of cultural properties and environment)	Rome (Italy)	ITL	200,000,000	33.33 33.33	FINSIEL INTERSIEL
CONSORZIO CONNET FORMAZIONE (professional training for the Ministry of work and social security)	Bari (Italy)	ITL	100,000,000	60.00 40.00	SSGRR NETSIEL
CONSORZIO GEODOC (in liquidation) (realization of an information system for the geological documentation of the national territory)	Rome (Italy)	ITL	200,000,000	90.00 10.00	FINSIEL TELESPAZIO
CONSORZIO GRUPPO STET PER ITALIA '90 (in liquidation) (telecommunications services for the world soccer cup which has been held in Italy in 1990)	Rome (Italy)	ITL	100,000,000	80.00	TELECOM ITALIA
CONSORZIO IRIS BENI CULTURALI (filing and recovery of documents and system assistance for the Ministry of cultural properties and environment)	Rome (Italy)	ITL	330,000,000	90.91 9.09	FINSIEL NETSIEL
CONSORZIO ISIB (harmonization of the infrastructural system of the Central Institute which manages the unique catalogue of the Italian libraries)	Rome (Italy)	ITL	100,000,000	70.00 30.00	FINSIEL INTERSIEL
CONSORZIO NAUTILUS (training activities)	Rome (Italy)	EUR	77,469	31.00 20.00	SSGRR MEDITERRANEAN NAUTILUS Ltd
CONSORZIO PROTER (in liquidation) (activities in the field of management and control of territory and environment)	Rome (Italy)	EUR	10,329.14	61.11	TELESPAZIO
CONSORZIO SEGISIEL (in liquidation) (realization of operating systems in the field of justice for the Telcal consortium)	Rende (Cosenza, Italy)	ITL	200,000,000	85.00 15.00	INTERSIEL FINSIEL
CONSORZIO SER (in liquidation) (realization of the information plan Calabria for the Telcal consortium)	Catanzaro (Italy)	ITL	200,000,000	46.00 5.00	INTERSIEL INSIEL
CONSORZIO SESIT (realization of the integrated information system for the Ministry of transport and navigation)	Rome (Italy)	ITL	100,000,000	70.00	FINSIEL
CONSORZIO SITA (in liquidation) (development of the information activities for the region and the public bodies of Abruzzo)	L'Aquila (Italy)	ITL	250,000,000	80.00	FINSIEL
CONSORZIO SOFTIN (in liquidation) (research and development in the field of industrial software and consulting)	Naples (Italy)	ITL	1,700,000,000	100.00	FINSIEL

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CONSORZIO TELEFRANCHISING (planning and development of Internet sites and portals)	Rome (Italy)	EUR 1,240,000	80.00		TELESPAZIO
CONSORZIO TURISTEL (information systems for tourism)	Rome (Italy)	EUR 77,460	33.33 33.33		SARITEL FINSIEL
CONSORTIUM AFFILIATES					
CONSORZIO ACCAM (automation of the communication centers of the agencies and operating units of the military air force)	Rome (Italy)	ITL 12,000,000	33.33		EIS
CONSORZIO AIACE (e-commerce promotion and internation alization of small and medium companies)	Milan (Italy)	EUR 36,151.98	25.00		DATABANK
CONSORZIO ALTEL (sale and promotion of satellite activities)	Rome (Italy)	EUR 51,645.68	50.00		TELESPAZIO
CONSORZIO C.O.M.P.A. (in liquidation) (study and monitoring of the problems of the Padano-Adriatico basin and professional training)	Bologna (Italy)	ITL 350,000,000	20.00		FINSIEL
CONSORZIO CSIA (information systems for the State agency for the agricultural market)	Rome (Italy)	ITL 400,000,000	44.00		FINSIEL
CONSORZIO DREAM FACTORY (promotion and development of new economy in the weak areas of the Nation)	Rome (Italy)	ITL 750,000,000	20.00		TELECOM ITALIA LAB S.p.A.
CONSORZIO ELETTRA 2000 (diffusion of studies and researches relating to electromagnetism)	Pontecchio Marconi (Bologna, Italy)	ITL 1,800,000,000	20.00		TELECOM ITALIA MOBILE
CONSORZIO FORFIN (programs and information systems relating to fiscal and financing matters)	Rome (Italy)	ITL 10,000,000	15.00 15.00		SSGRR SOGEI
CONSORZIO I.T.A. (research and services in the field of agriculture)	Rome (Italy)	EUR 12,394.95	33.33		TELESPAZIO
CONSORZIO LA CARTA DI VENEZIA (in liquidation) (integrated services for the metropolitan area of Venice)	Venice (Italy)	EUR 10,500	50.00		VENIS
CONSORZIO OMNIA (in liquidation) (hardware maintenance)	Perugia (Italy)	ITL 5,000,000	50.00		WEBRED
CONSORZIO PAOLA (in liquidation) (applied research for the development of information systems for clinics and medical structures)	Udine (Italy)	ITL 15,768,758	50.00		INSIEL
CONSORZIO PER LE OSSERVAZIONI DELLA TERRA (planning and development of activities for environment)	Matera (Italy)	EUR 10,000	24.00		TELESPAZIO
CONSORZIO R.E.S. - Raggruppamento Europeo per la Sicurezza (establishment and management of a center for the evaluation of the physical safety of information systems)	Rome (Italy)	EUR 309,800	50.00		TELECOM ITALIA
CONSORZIO SCUOLA SUPERIORE ALTA FORMAZIONE UNIVERSITA' FEDERICO II (professional training)	Naples (Italy)	ITL 250,000,000	20.00		TELECOM ITALIA MOBILE
CONSORZIO SIMT (information systems for the General Management of the civil traffic and transport control authority)	Rome (Italy)	ITL 100,000,000	45.00		FINSIEL
CONSORZIO TELAER (planning and development of activities regarding the advanced aerial survey)	Capodichino (Naples, Italy)	ITL 200,000,000	50.00		TELESPAZIO
CONSORZIO TELCAL (planning and development of the organic project "Piano Telematico Calabria")	Catanzaro (Italy)	EUR 877,975	24.00 24.00		TELECOM ITALIA INTERSIEL
CONSORZIO TELEMED (in liquidation) (telematic activities for social and sanitary assistance)	Rome (Italy)	ITL 200,000,000	33.33		TELECOM ITALIA
CONSORZIO TELESIS (in liquidation) (integrated telematic systems)	Milan (Italy)	EUR 516,456	100.00		ITALTEL S.p.A.

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OTHER MAJOR EQUITY HOLDINGS AS PER CONSOB RESOLUTION N. 11971 OF MAY 14, 1999

Name (type of business)	Head office	Share capital	% of ownership	% of voting rights	Held by
AGENCY MULTIMEDIA S.A. (Internet services)	St. Denis La Plaine (France)	FRF	2,200,000	19.09	JET VENTURE
ANCITEL S.p.A. (telecommunications services)	Rome (Italy)	EUR	1,087,232	8.55 7.13	TELECOM ITALIA INSIEL
AVONDI Ltd (marketplace management)	London (UK)	GBP	16,040	13.90	MATRIX
BFINANCE.COM Ltd (capital marketplace)	London (UK)	EUR	350,982	17.95	SEAT PAGINE GIALLE
CISIT S.c.p.A. (information technology activities)	Rome (Italy)	ITL	210,000,000	16.66	TRAINET
COMUNICARE VIA SATELLITE S.r.l. (in liquidation) (sale of services relating to TV business)	Republic of San Marino	EUR	72,000	15.00	INTELCOM SAN MARINO
ELETTROCLICK S.p.A. (software production)	Milan (Italy)	EUR	339,746	14.70	SEAT PAGINE GIALLE
EURESCOM - European Institute For Research and Strategic Studies in Telecommunications GmbH (strategical research and development)	Heidelberg (Germany)	EUR	100,000	11.75	TELECOM ITALIA
EUSKALTEL S.A. (telecommunications services)	Zamudio Bizkaia (Spain)	EUR	250,200,000	18.00	STET INTERNATIONAL NETHERLANDS
FIRST ASSUR S.A. (data bank activities for the insurance sector)	Paris (France)	FRF	14,039,900	17.09	JET VENTURE
IFM INFOMASTER S.p.A. (planning and realization of call center solutions)	Genoa (Italy)	EUR	161,765	12.00	TELECOM ITALIA LAB B.V.
IO FACET S.A. (Information technology consulting)	Paris (France)	FRF	1,500,000	12.51	JET MULTIMEDIA HOSTING
INDIRECT S.p.r.l. (holding company)	Brussels (Belgium)	FB	6,000,000	19.17	TDL INVESTMENTS
INSULA S.p.A. (telecommunications services)	Mestre (Venice, Italy)	EUR	2,064,000	12.00	TELECOM ITALIA
LOCALPORT S.p.A. (study, research, development and sale of information systems)	Ivrea (Turin, Italy)	EUR	2,040,000	14.98	TELECOM ITALIA LAB S.p.A.
NETESI S.p.A. (telecommunications services)	Milan (Italy)	EUR	1,893,666	17.98	TELECOM ITALIA
PAS GROUP - Professional Application Software S.r.l. (software production)	Milan (Italy)	ITL	180,000,000	16.67	EUSTEMA
POLCESCA S.r.l. (management of information services)	Bologna (Italy)	EUR	89,000	16.67	EIS
RIBES S.p.A. (management of available data from the public real estate Registry)	Parma (Italy)	EUR	500,000	17.50	DATA HOUSE
TELEPORTO ADRIATICO S.r.l. (telecommunications services)	Venice (Italy)	EUR	1,650,000	7.50 4.69	TELECOM ITALIA INSIEL
TRADIZIONI ITALIANE S.p.A. (agro-food company)	Cirò (Crotone, Italy)	EUR	8,263,111	11.38	INTERSIEL
TWICE SIM S.p.A. (investment services)	Milan (Italy)	EUR	12,925,000	18.64	SEAT PAGINE GIALLE
VIRTUALAND PARK S.p.A. (in liquidation) (information services)	Castiglione del Lago (Perugia, Italy)	EUR	103,280	12.50	WEBRED
VIRTUAL SELF Ltd (development of technologies devices, synthesis services)	Ramat Gan (Israel)	ILS	3,156	16.06	TELECOM ITALIA LAB B.V.
WEB MUSIC COMPANY S.p.A. (sale of audio-video and multimedia products)	Rome (Italy)	EUR	520,000	15.00	SEAT PAGINE GIALLE

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■ INDEPENDENT AUDITORS' REPORT

RECONTA ERNST & YOUNG

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AUDITORS' REPORT

pursuant to article 156 of Legislative Decree of February 24, 1998, n. 58
(Translation from the original Italian text)

To the Shareholders
of Telecom Italia S.p.A.

1. We have audited the consolidated financial statements of Telecom Italia S.p.A. as of and for the year ended December 31, 2001. These financial statements are the responsibility of the Telecom Italia S.p.A.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. Our audit was made in accordance with auditing standards and procedures recommended by CONSOB. In accordance with such standards and procedures we planned and performed our audit to obtain the information necessary in order to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness of the accounting principles applied and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

The financial statements of certain subsidiaries and associated companies, which represent respectively 19% and 17% of consolidated total assets and consolidated total revenues, have been examined by other auditors, whose reports have been furnished to us. Our opinion, expressed herein, insofar as it relates to the data relating to these subsidiaries and associated companies included in the consolidated financial statements, is based also on the reports of the other auditors.

For the opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes as required by the law, reference should be made to the auditors' report dated May 21, 2001, issued by other auditors.

3. In our opinion, the consolidated financial statements of Telecom Italia S.p.A. comply with the Italian regulations governing consolidated financial statements; accordingly, they clearly present and give a true and fair view of the consolidated financial position of Telecom Italia S.p.A. as of December 31, 2001, and the consolidated results of its operations for the year then ended.

■ Reconta Ernst & Young S.p.A.
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RECONTA ERNST & YOUNG

4. We draw your attention to the information presented in the explanatory notes, "Summary of significant accounting policies", regarding the accounting criteria utilized for the employee benefit obligations as required by Law no. 58/1992.

Turin, April 15, 2002

Reconta Ernst & Young S.p.A.

signed by: Felice Persico (Partner)



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BALANCE SHEETS

ASSETS

(In euros)

	12/31/2001	12/31/2000
RECEIVABLES FROM SHAREHOLDERS FOR CAPITAL CONTRIBUTIONS	-	-
INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS		
- INTANGIBLE ASSETS		
Start-up and expansion costs	-	-
Industrial patents and intellectual property rights	665,720,762	424,113,188
Concessions, licenses, trademarks and similar rights	85,560	46,526,413
Goodwill	-	-
Work in progress and advances to suppliers	479,961,536	640,450,618
Other intangibles	172,154,470	77,613,582
TOTAL INTANGIBLE ASSETS	1,317,922,328	1,188,703,801
- FIXED ASSETS		
Land and buildings	1,497,470,780	1,554,485,391
Plant and machinery	11,800,587,380	12,974,649,123
Manufacturing and distribution equipment	27,952,989	40,167,221
Other fixed assets	102,835,291	83,784,419
Construction in progress and advances to suppliers	680,743,184	481,949,816
TOTAL FIXED ASSETS	14,109,589,624	15,135,035,970
- LONG-TERM INVESTMENTS		
Equity investments in subsidiaries	17,659,160,313	18,216,954,644
affiliated companies	386,923,301	574,829,758
other companies	24,326,711	91,779,334
Total equity investments	18,070,410,325	18,883,563,736
Advances on future capital contributions	78,895,821	963,135,227
Accounts receivable (*)		
subsidiaries	60,000,000	50,000,000
other receivables	60,523,522	160,738,026
Total accounts receivable	60,523,522	220,738,026
Treasury stock	-	661,359,839
TOTAL LONG-TERM INVESTMENTS	18,370,044,172	20,758,240,390
TOTAL INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS	33,797,556,124	37,081,980,161
CURRENT ASSETS		
- INVENTORIES		
Contract work in process	16,593,288	35,910,751
Finished goods and merchandise		
merchandise	60,300,588	41,241,715
TOTAL INVENTORIES	76,893,876	77,152,466
- ACCOUNTS RECEIVABLE (**)		
Trade accounts receivable	4,241,654,077	4,295,583,552
Accounts receivable from subsidiaries	2,196,920,276	2,703,481,780
Accounts receivable from affiliated companies	311,569,853	241,608,589
Accounts receivable from parent companies	1,090,158	1,208,129
Other receivables due from		
Government and other public entities for grants and subsidies	1,265,371	1,265,371
deferred tax assets	94,489,404	509,093,704
other receivables	1,958,800,056	1,390,789,041
Total other receivables	94,489,404	2,469,159,131
TOTAL ACCOUNTS RECEIVABLE	9,220,393,495	9,119,141,872
- SHORT-TERM FINANCIAL ASSETS		
Equity investments in subsidiaries	240,456,832	326,732,560
Other equity investments	-	5,146,911
Other securities	-	-
TOTAL SHORT-TERM FINANCIAL ASSETS	240,456,832	331,879,471
- LIQUID ASSETS		
Bank and postal accounts	80,219,566	108,620,985
Checks	9,021	4,792
Cash and valuables on hand	384,569	321,590
TOTAL LIQUID ASSETS	80,613,156	108,947,367
TOTAL CURRENT ASSETS	9,618,357,359	9,637,121,176
ACCRUED INCOME AND PREPAID EXPENSES		
Issue discounts and similar charges	25,097,171	1,245,417
Accrued income and other prepaid expenses	669,942,075	842,827,497
TOTAL ACCRUED INCOME AND PREPAID EXPENSES	695,039,246	844,072,914
TOTAL ASSETS	44,110,952,729	47,563,174,251

(*) Amounts due within one year

(**) Amounts due beyond one year

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LIABILITIES AND SHAREHOLDERS' EQUITY

(In euros)

	12/31/2001	12/31/2000
SHAREHOLDERS' EQUITY		
- SHARE CAPITAL	4,023,060,528	3,835,290,133
- ADDITIONAL PAID-IN-CAPITAL	1,812,283,565	1,802,910,598
- RESERVES FOR INFLATION ADJUSTMENTS UNDER		
Law No. 72 of 3.19.1983	2,294,719,878	2,481,701,583
Law No. 413 of 12.30.1991	468,944,257	468,944,257
TOTAL RESERVES FOR INFLATION ADJUSTMENTS	2,763,664,135	2,950,645,840
- LEGAL RESERVE	652,025,781	524,092,652
- RESERVE FOR TREASURY STOCK	-	661,359,839
- OTHER RESERVES		
Reserve for accelerated depreciation	-	-
Reserve under Law No. 342 of 11.21.2000 - article 14	716,378,105	888,460,271
Reserve under Legislative Decree No. 124/93 - article 13	169,300	-
Reserve under Law No. 488/1992	118,677,664	-
Special reserve	1,369,062,099	1,243,373,496
Reserve for capital grants	471,946,843	456,616,923
Miscellaneous reserves	3,792,576,214	3,792,576,213
TOTAL OTHER RESERVES	6,468,810,225	6,381,026,903
- NET INCOME	150,809,707	2,558,662,582
TOTAL SHAREHOLDERS' EQUITY	15,870,653,941	18,713,988,547
RESERVES FOR RISKS AND CHARGES		
Reserves for taxes	116,647,942	141,238,258
Other reserves	1,496,089,636	742,466,960
TOTAL RESERVES FOR RISKS AND CHARGES	1,612,737,578	883,705,218
RESERVE FOR EMPLOYEE TERMINATION INDEMNITIES	1,025,348,862	1,031,274,074
	(**)	(**)
LIABILITIES		
Debentures	8,250,000,000	8,250,000,000
Due to banks	1,771,000,440	7,308,419,764
Due to other lenders	317,658,225	657,777,214
Advances		2,447,145
Trade accounts payable		2,240,654,716
Accounts payable to subsidiaries		2,350,729,615
Accounts payable to affiliated companies		244,744,430
Accounts payable to parent companies		11,000
Taxes payables	43,974,617	460,551,409
Contributions to pension and social security institutions	593,360,920	767,411,695
Other liabilities	1,960,192	2,615,256,311
TOTAL LIABILITIES	10,977,954,394	24,898,003,299
ACCRUED EXPENSES AND DEFERRED INCOME	704,209,049	3,842,813,519
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	44,110,952,729	26,423,069,489
		511,136,923
		47,563,174,251

(**) Amounts due beyond one year

MEMORANDUM ACCOUNTS

(In euros)

	12/31/2001	12/31/2000
GUARANTEES PROVIDED		
Sureties		
on behalf of subsidiaries	11,191,302,621	2,811,667,030
on behalf of affiliated companies	185,450,107	2,043,662,328
on behalf of others	164,576,258	(395,592,001)
TOTAL GUARANTEES PROVIDED	11,541,328,986	4,459,737,357
COLLATERAL PROVIDED	-	-
PURCHASES AND SALES COMMITMENTS	3,388,579,706	3,494,936,506
OTHER MEMORANDUM ACCOUNTS	7,060,549	8,993,016
TOTAL MEMORANDUM ACCOUNTS	14,936,969,241	7,963,666,879

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■ STATEMENTS OF INCOME

(in euros)

	2001	2000
PRODUCTION VALUE		
Sales and service revenues	17,309,065,135	17,462,783,672
Changes in inventory of contract work in process	(19,317,463)	8,032,333
Increases in capitalized internal construction costs	5,615,206	11,365,047
Other revenue and income		
operating grants	278,080	521,559
other	241,624,830	276,292,336
Total other revenue and income	241,902,910	276,813,895
TOTAL PRODUCTION VALUE	17,537,265,788	17,758,994,947
PRODUCTION COST		
Raw materials, supplies and merchandise	301,446,894	404,585,634
Services	5,945,961,040	5,695,762,811
Use of property not owned	619,499,094	452,087,341
Personnel		
wages and salaries	1,858,020,773	2,146,293,819
social security contributions	590,283,266	705,705,518
termination indemnities	142,974,705	171,931,648
other costs	52,961,421	64,631,836
Total personnel costs	2,644,240,165	3,088,562,821
Amortization, depreciation and writedowns		
amortization of intangible assets	617,565,388	600,088,831
amortization of fixed assets	2,703,674,290	3,118,775,106
other writedowns of intangibles and fixed assets	-	19,433,324
writedowns of receivables included in current assets and liquid assets	158,542,120	171,716,751
Total amortization, depreciation and writedowns	3,479,781,798	3,910,014,012
Changes in inventory of raw materials, supplies and merchandise	(19,058,872)	51,229,027
Provisions for risks	76,784,534	62,847,644
Other provisions	23,429,622	-
Miscellaneous operating costs		
losses on disposals of assets	24,747,506	48,727,397
license fee	289,581,611	311,180,145
other miscellaneous costs	167,567,664	139,131,907
Total miscellaneous operating costs	481,896,781	499,039,449
TOTAL PRODUCTION COST	(13,553,981,056)	(14,164,128,739)
OPERATING INCOME	3,983,284,732	3,594,866,208
FINANCIAL INCOME AND EXPENSE		
Income from equity investments		
dividends from subsidiaries	1,259,193,465	1,056,098,275
dividends from affiliated companies	41,055,604	68,618,852
dividends from other companies	4,384,727	56,891,143
other income from equity investments	717,456,025	607,691,982
Total income from equity investments	2,022,089,821	1,789,300,252
Other financial income from		
accounts receivable included in long-term investments		
subsidiaries	2,466,241	4,185,566
affiliated companies	-	3,889,736
other	11,917,535	8,254,979
Total accounts receivable included in long-term investments	14,383,776	16,330,281
securities, other than equity investments, included in long-term investments	-	-
securities, other than equity investments, included in current assets	-	1,307,278
other income		
interest and fees from subsidiaries	57,163,147	42,136,346
interest and fees from affiliated companies	8,336,127	7,078,551
interest and fees from others and miscellaneous income	108,168,456	115,756,809
Total other income	173,667,730	164,971,706
Total other financial income	188,051,506	182,609,265
Interest and other financial expense		
interest and fees paid to subsidiaries	257,799,579	78,187,566
interest and fees paid to affiliated companies	1,454,675	5,702,741
interest and fees paid to others and miscellaneous expense	1,553,551,229	558,194,208
Total interest and other financial expense	(1,812,805,483)	(642,084,515)
TOTAL FINANCIAL INCOME AND EXPENSE	397,335,844	1,329,825,002
VALUE ADJUSTMENTS TO FINANCIAL ASSETS		
Upward adjustments of		
equity investments	13,792	-
Total upward adjustments	13,792	-
Writedowns of		
equity investments	774,881,369	437,757,188
Total writedowns	(774,881,369)	(437,757,188)
TOTAL VALUE ADJUSTMENTS	(774,867,577)	(437,757,188)

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(in euros)

	2001	2000
EXTRAORDINARY INCOME AND EXPENSE		
Income		
gains on disposals	264,388,273	666,424,290
miscellaneous	230,823,224	88,319,332
Total income	495,211,497	754,743,622
Expense		
losses on disposals	1,134,306	9,868,941
prior years' taxes	1,225,839	3,533,602
provisions and writedowns of equity investments	2,526,767,530	-
miscellaneous	859,005,899	920,801,155
Total expense	(3,388,133,574)	(934,203,698)
TOTAL EXTRAORDINARY ITEMS	(2,892,922,077)	(179,460,076)
INCOME BEFORE TAXES	712,830,922	4,307,473,946
Income taxes		
current taxes	73,554,063	1,382,906,816
deferred taxes	488,467,152	365,904,548
Total income taxes	(562,021,215)	(1,748,811,364)
NET INCOME	150,809,707	2,558,662,582

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NOTES TO FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with the provisions of the Italian Civil Code.

The accounting policies adopted in the preparation of the financial statements have been applied on a basis consistent with the prior year and are described below.

No special situations arose during the year that would require the use of the waivers allowed under Article 2423, Section 4, of the Italian Civil Code.

Following certain changes to the classification of some items of the financial statements, the financial statements at December 31, 2000 have been duly reclassified for purposes of a meaningful comparison.

As required by Legislative Decree No. 127/1991, consolidated financial statements have also been prepared and are presented together with the financial statements of Telecom Italia.

The disclosure relating to the introduction of the euro is presented in a specific paragraph "Other information" of these Notes and in the Report on operations.

The statement of cash flows, although presented in the Report on Operations, constitutes an integral part of these Notes to financial statements pursuant to Article 2423, Section 3 of the Italian Civil Code.

Unless otherwise specified, all figures are stated in thousands of euro.

As described in the comments under "Management's discussion and analysis of financial condition and results of operations", as a result of the sales and contributions made during 2001, the balance sheet does not include the assets and liabilities that were transferred, whereas the statement of income takes into account the results of the companies sold/contributed up to the date the transactions went into effect.

■ SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

■ Intangible assets

Intangible assets are recorded at acquisition or production cost and are amortized systematically over their estimated period of benefit. Intangible assets are written down when there is a permanent impairment to below their net book value, in accordance with article 2426, Section 1, item 3 of the Italian Civil Code.

Detailed amortization policies are presented in the following paragraphs.

"*Industrial patents and intellectual property rights*" are amortized over their estimated period of benefit on a five-year basis (industrial patents) or on a three-year basis (software), starting from the year of their initial use.

The item "*Others*" consists primarily of:

- leasehold improvements: amortization is calculated on the basis of the remaining period of the lease contracts;
- rights of use of transmission systems (DDP) and indefeasible rights of use (IRU) that guarantee the extension of transmission capacity of the Company over a foreign territory: amortization is calculated over the period of the contracts entered with the foreign operators who own the installations to which the rights refer.

"*Research, development and advertising costs*" are charged to income in the year incurred.

■ Fixed assets

Fixed assets are recorded at acquisition or production cost and depreciated on the straight-line method at rates determined on the basis of their estimated remaining useful life. They include monetary adjustments made on the basis of the special laws regarding assets existing on or before December 31, 1981, the entries required under Law No. 823 of December 19, 1973, regarding the settlement of tax liabilities, as well as mandatory inflation adjustments of buildings as required by Law No. 413 of December 30, 1991.

Fixed assets are written down when there is a permanent impairment to below their net book value, in accordance with article 2426, Section 1, item 3 of the Italian Civil Code.

Construction in progress is stated at the amount of direct costs incurred (materials used for or intended for installations, third-party services, miscellaneous expenses, as well as company labor). The value of fixed assets does not include maintenance costs incurred for their upkeep to guarantee their expected useful life, their original capacity and productivity, and costs borne to repair malfunctions and failures; such expenses are charged to the statement of income in the year incurred.

Depreciation is calculated on the basis of the estimated useful lives of the installations.

Total accumulated depreciation for fixed assets was upwardly adjusted where called for by the previously mentioned special laws.

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■ Equity investments

Equity investments in subsidiaries, affiliated companies and other companies considered long-term in nature are recorded in long-term investments or, if acquired for subsequent sale, recorded in short-term financial assets.

Long-term equity investments in "*subsidiaries, affiliated companies and other companies*" are valued at acquisition or subscription cost – determined according to the continuous LIFO method – increased by the statutory inflation adjustments, as well as the voluntary one made to several investments during the preparation of the financial statements at December 31, 1981.

The carrying value of investments recorded in long-term investments is adjusted for any reasonable expectations of a decline in profitability or recoverability in future years.

In the case of a permanent impairment, the value of such investments is written down and the impairment in value in excess of the corresponding carrying value is recorded among "*reserves for risks and charges*".

Contracts for the loan of securities are represented in the financial statements as two functionally related transactions: a loan and a repurchase transaction on the securities with the obligation of the borrower to resell them at maturity. Accordingly, "Other receivables" and "Other liabilities" include, respectively, a receivable and a payable of the same amount at the fixed amount of the contract (market price of stock at the date of delivery of the securities).

Equity investments included under current assets, consisting mainly of shares of consolidated listed companies purchased for trading purposes, are stated at the lower of cost – determined according to the continuous LIFO method – and realizable value, based on the year-end prices on the Italian Online Stock Market.

The costs of investments in foreign companies have been translated at historical exchange rates prevailing at the time of acquisition or subscription.

Writedowns of investments, whether included in long-term investments or current assets, will be reversed in subsequent years if the underlying assumptions are no longer correct.

■ Other securities (other than equity investments)

Securities that the company intends to hold to maturity are included among long-term investments; those bought for trading purposes are listed under short-term financial assets.

Securities held as long-term investments are valued at cost, adjusted by any permanent impairment in solvency of the issuers.

Securities included in current assets are valued at the lower of cost of acquisition and realizable value based on market prices.

Writedowns of securities will be reversed in subsequent years, if the underlying assumptions are no longer correct.

■ Inventories

Inventories – consisting of goods intended for sale, as well as stock on hand of technical materials and replacement parts to be used in the business during the year and for maintenance – are valued at the lower of cost, calculated using the weighted-average method, and realizable value.

The carrying value of goods in stock is reduced, through appropriate writedowns, for obsolete materials.

Inventories include the amount of work on behalf of third parties in progress at the end of the year, valued according to the "costs" already incurred.

■ Accounts receivable and liabilities

Accounts receivable are stated at estimated realizable value and classified under long-term investments or current assets. They include – as far as telecommunications services are concerned – the amount of services already rendered to customers and other carriers, already billed or still to be billed, as well as the invoices for the sale of telephone and online products.

Liabilities are shown at their nominal value.

Accounts receivable and liabilities in foreign currency are recorded at the year-end exchange rates; the positive and negative differences between the balance of accounts receivable and liabilities converted at year-end exchange rates and their balance at the original exchange rates are recorded in the statement of income, respectively, in "*financial income*" and "*financial expense*".

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■ Securitization

During 2001, Telecom Italia began a program for the securitization of receivables generated by the services rendered to the residential, top and business customers of Telecom Italia Domestic Wireline (TIDW) business unit and the customers of Path.Net (a wholly-owned subsidiary of Telecom Italia, which provides telephone services to the Public Administration). Such program makes it possible to follow up the first issue of euro 700 million of notes in June 2001 by TI Securitisation Vehicle S.r.l., the vehicle company for the program which operates under Law No. 130/1999, with successive issues of notes all with the same rights and risk profile, up to the total maximum limit of euro 2 billion.

The transaction, regulated by the aforementioned law, presupposes, usually on a monthly basis, the stipulation of buy-sell contracts containing without recourse clauses between Telecom Italia and Path.Net (assignors) and TI Securitisation Vehicle S.r.l. (assignee), exclusively for outstanding trade accounts receivable. The flows of receipts from the trade accounts receivable covered by the contracts constitute the funds which the securitization vehicle uses to pay the interest and the principal to the noteholders. Within the framework of TI Securitization Vehicle's disbursement plans and the time frame for the collection of the receivables, the sums received are also used to purchase new receivables generated by the sales activities of the assignor companies.

The price for this transaction, equal to the nominal value of the receivables, net of a discount which takes into account the expenses that TI Securitization Vehicle S.r.l. must bear, will be paid to the assignor company partly as the advanced purchase price, at the time of sale, and partly as the deferred purchase price. The deferred portion, which constitutes the credit enhancement of the transaction, will be paid to the assignor company each time new receivables are sold, subject to the collection of the receivables, and is prudently calculated by the rating agencies on the basis of pre-established estimates of the collection times and the amounts of the credit notes that will eventually be issued. Such estimates and therefore also the deferred purchase price, will be adjusted monthly on the basis of the effective performance of the receivables (dynamic type of credit enhancement).

As regards the risk of uncollectibility, the assignor company is responsible for the solvency of the debtors on the receivables sold only up to the limit of the amount of the deferred purchase price.

The first issue of notes backed by the securitization of receivables (called *Series 2001-1*) for a total of euro 700 million, was divided into three classes having the following characteristics:

- **Class A1:** variable rate notes denominated in euro for euro 100 million with maturity at approximately 18 months (maturing January 25, 2003) with a margin of 19 basis points over the 3-month Euribor;
- **Class A2:** variable rate notes denominated in euro for euro 150 million with maturity at approximately 3 years (maturing July 25, 2004) with a margin of 27 basis points over the 3-month Euribor;
- **Class A3:** variable rate notes denominated in euro for euro 450 million with maturity at approximately 5 years (maturing July 25, 2006) with a margin of 34 basis points over the 3-month Euribor.

These notes have been rated by Fitch, Moody's and Standard & Poor's at AAA/Aaa/AAA. The high ratings reflect the quality and diversification of the receivable portfolio, the element of overcollateralization represented by the dynamic mechanism for managing the deferred purchase price, the legal structure of the transaction and other qualifying aspects of the program. The notes were subscribed to at face value and requests were received from Italy for about 20% of the total amount and the remaining 80% from abroad, particularly Spain, France, the United Kingdom and Germany.

The total amount of the trade accounts receivables sold under securitization transactions in 2001 was euro 5.9 billion and solely referred to receivables from residential customers generated by Telecom Italia. At December 31, 2001, the receivables sold and not yet collected amounted to euro 877 million (of which euro 684 million were not yet due).

As far as the accounting treatment of the securitization transaction is concerned, the total amount of receivables sold without recourse is reversed from the balance sheet with a contra-entry for the consideration received on the sale: the amount paid is represented by the non-repeatable amount received immediately (without recourse) whereas the deferred portion is recorded in *Other receivables (financial)* in current assets. The difference between the accounting value of the receivables sold and the consideration on the sale (*securitization expenses*) is charged on the accrual basis to *Miscellaneous operating costs* in the statement of income. The costs and expenses relating to the start-up and completion and implementation of the securitization program (arrangement, underwriting, legal, rating, audit, etc.) are charged directly to the statement of income in *Costs for Services*.

The securitization transaction led to an improvement in net debt at December 31, 2001 of euro 848 million.

Lastly, under the securitization program, TI Securitisation Vehicle can invest the temporary excess liquidity in Telecom Italia. At December 31, 2001, the balance of such investments totaled euro 168 million against which financial payables to TI Securitisation Vehicle have been recorded for the same amount in the balance sheet of Telecom Italia.

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■ Accruals and deferrals

These items are recorded on the accrual basis. *"Issue discounts and similar charges"* consist of costs in connection with long-term loans, which are charged to the statement of income over the duration of the loan in proportion to the accrued interest.

■ Reserves for risks and charges

"For taxes": this reserve includes prudent provisions for estimated tax charges (including any surtaxes and late payment interest) on positions not yet agreed or in dispute.

"For deferred taxes": this reserve includes deferred tax liabilities - net of deferred tax assets, whenever the assumptions for doing so exist - calculated on the timing differences between the value attributed to assets and liabilities for statutory purposes and the value attributed to the same assets and liabilities for tax purposes.

Whenever the amount of deferred tax assets is higher than deferred tax liabilities, the balance is recorded among *"other receivables"* in current assets.

"Other reserves" relate primarily to provisions to cover charges of certain or likely existence whose amount or date of occurrence could, however, not be determined at the end of the year. The provisions reflect the best possible estimate, based on the commitments made and on the available data.

■ Reserve for employee termination indemnities

The amount of this reserve is determined in accordance with current laws (in particular Law No. 297 of May 29, 1982, which provides for fixed and variable cost-of-living adjustments) and collective bargaining agreements. The reserve is adjusted to the liability matured at the end of the year for personnel in force at that date and is net of advances paid.

■ Employee benefit obligations under Law No. 58/1992

With regard to Telecom Italia's obligation required by Law No. 58/1992 to guarantee a uniform insurance status under the Telephone Workers' Social Security Fund - FPT (part of the general "Employees Pension Fund" beginning January 1, 2000) to all employees in service in the Group's telephone companies (Stet, Sip, Italcable and Telespazio) as of February 20, 1992, as well as those who moved from the Public Administration to Iritel, Article 66, Section 1 of Law 331/1993 and converted into Law No. 427/1993 specifies that the sums due to the Fund should be recorded in the financial statements and are tax deductible in the years in which the fifteen equal annual deferred installments are paid to discharge this obligation.

At the present time, the amount of the liability, which will be determined by the National Social Security Institute (Istituto Nazionale della Previdenza Sociale - INPS), can be estimated only roughly, due to problems relating to the interpretation and application of the social security legislation and to the lack of certain data which only the social security institutions currently possess. Nevertheless, these financial statements include euro 651 million of residual payables to INPS, (net of the amount attributed to Group companies for the employees transferred to those companies), relating to the estimate made for the employees of the former State Company for Telephone Services (ASST) by the special Ministerial Commission established under Law No. 58/1992 upon the transfer of the assets of the Post and Telecommunications Administration to Iritel, and recorded by the latter company in its financial statements at December 31, 1993. As a result, these charges will have no impact on the results of future years, since they were already included in the aforementioned calculation.

A dispute concerning the application and interpretation of this law is pending with INPS regarding, firstly, the effective date for the computation of the accrued interest due under Law No. 58/1992, in view of the fact that the liability is paid in installments. Telecom Italia maintains that interest should accrue from the time INPS notifies it of the actual amount of the liability, while INPS claims that the computation should be made as from February 20, 1992 or from the date of the transfer to Iritel, thus giving rise to pre-amortization interest. The second issue is the exclusion from the estimates under Law No. 58/1992 of all employees (except for employees of the former Iritel) who had filed an application to join pursuant to Law No. 29/1979 before February 20, 1992, unless that application had not been processed by INPS. The position of the Company is that the criteria set forth in Law No. 29/1979 - and, therefore, payment of the respective obligations - apply to these employees.

At the present time, the parties have agreed that the differences in interpretation shall be settled through test appeals, with recourse to the Court of Appeals being waived for a final determination of the correct interpretation of the law in question.

While the proceedings are pending, Telecom Italia has agreed to pay under protest the amounts requested by INPS based on the criteria determined by the latter, subject to subsequent equalization adjustments, if the Courts ultimately accept the Company's interpretation. Based on the above, a reasonable estimate of the principal amount of the liability attributable to Telecom Italia (excluding, as mentioned earlier, the part relating to the former Iritel employees) could vary between euro 960 million and euro 1,284 million (euro 334 million of which has already been paid), depending on conflicting interpretations and taking into account all personnel involved. However, these estimates are merely indicative, lacking complete data from INPS. As of December 31, 2001, INPS had submitted formal requests for about 97% of the employees whose change in insurance status will result in a charge for Telecom Italia.

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In either case, the impact of the charge should definitely be compatible with the income of future years, since, as allowed under Article 5, Section 3 of Law No. 58/1992, the payments requested by INPS will be made in fifteen equal annual deferred installments (including annual interest of 5%), starting when INPS formally submits its requests.

The remaining liability for obligations under Law No. 58/1992, to be paid in fifteen annual installments on the basis of the formal requests made by INPS on December 31, 2001 and the interpretation of said requests, amounts to euro 1,347 million, divided as follows:

- euro 910 million for the principal amount (except for the portion attributable to former Iritel employees);
- euro 437 million in accrued interest.

The amount referring to 2001 and charged to the statement of income in "extraordinary expense" amounts to euro 155 million, including only accrued interest.

Pre-amortization interest (including that relating to the employees of the former Iritel), subsequent to the agreement between INPS and Telecom Italia, was paid by the latter - with reservation - in fifteen equal annual deferred installments, including interest at an annual rate of 5%, up to the end of 1999, for a total amount of euro 112 million. In compliance with the sentence handed down by the Court of Appeals, No. 4242 of April 5, 2000, which upheld Telecom Italia's position, payment of the above-described interest and accrued interest related thereto was suspended as from June 2000 (for a residual amount of euro 407 million).

During 2001, Telecom Italia paid INPS the above-mentioned charges also on behalf of other Group companies - mainly TIM and TI Lab - for those employees transferred and covered by the obligation of a uniform insurance status under Law No. 58/1992, recovering the amounts paid from these same companies. The recovery is recorded in the statement of income under "extraordinary income" and amounts to euro 2 million.

■ Grants

Operating grants (directly credited to the statement of income) and capital grants or grants for installations are recorded in the accounting period in which the paperwork documenting the grants is received, or in the period in which the respective costs are incurred, provided that the certainty of payment is confirmed by established procedures.

The treatment of capital grants and grants for installations in the balance sheet is as follows:

- grants received through December 31, 1992, are included under "*reserves for risks and charges*". The portions equivalent to the depreciation taken on assets financed with the grants in question (the so-called "available" portion) are transferred to a special equity reserve in order to obtain the benefits allowed under the tax law;
- for grants received from January 1, 1993 to December 31, 1997, 50% of the amount received is recorded in a special reserve of shareholders' equity in order to take advantage of the benefits available under the tax laws, and the remaining 50% is recorded under "*deferred income*". These amounts are gradually credited to income in accordance with the pertinent laws;
- for grants received from January 1, 1998, the amount is recorded under "*deferred income*" and progressively credited to the statement of income in relation to the depreciation taken on the assets to which the grants refer.

■ Revenues and expenses

Revenues and expenses are recorded on an accrual basis. Revenues relating to telecommunications services are shown gross of the amounts due to other carriers which are recorded, for the same amount, in production cost.

Fees for new access lines and line transfers are recorded as income when the service is provided.

Dividends from subsidiaries are recorded on the maturity principle, that is, in the year when the income from which they are paid is earned by the subsidiaries, providing there is a substantial certainty that they will be paid, and, in any event, when the shareholders' resolution declaring the dividend is passed or when the appropriation of net income is set forth in the preliminary financial statements prepared by the management of the subsidiaries prior to the Board Meeting of the parent company that resolves upon the financial statements. Dividends from affiliated companies and other companies, on the other hand, are recognized in the statement of income according to accrual principle, that is, in the year in which the respective right to the receivable arises, following the declaration of dividends approved by the shareholders' resolution of those companies. The tax credits are recorded in the same manner as the dividends to which they refer.

■ Leased assets

Capital goods acquired under leasing agreements are recorded in the financial statements by a method consistent with current legislation, which requires that leasing payments be recorded as operating costs.

■ Memorandum accounts

"*Guarantees provided*" are shown for the amount of the remaining liability or other obligation guaranteed; those provided in foreign currencies are translated at year-end exchange rates.

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"Purchases and sales commitments" are determined on the basis of the unperformed portion of contracts outstanding at the end of the fiscal year which do not fall under the normal "operating cycle".

■ Financial derivatives

Financial derivative contracts are used by the Company/Group to hedge exposure to interest rate and exchange rate risks. They are valued consistently with the underlying asset and liability positions and any net expenses connected with each single transaction is recognized in the statement of income.

For financial instruments used to hedge interest rate risks, the interest differentials are recorded in the statement of income in "financial income and expense" based on the accrual principle.

For financial instruments used to hedge exchange rate risks, the cost (or "financial component" calculated as the difference between the rate at the date of stipulating the contract and the forward rate) is recorded in the statement of income in "financial income and expense" based on the accrual principle.

■ Income taxes

Current income taxes are computed on the basis of a realistic estimate of the income tax charge according to the tax laws of the country; the related income tax payable is shown net of payments on account, withholding taxes and tax credits in "income taxes payable". Any net receivable position is shown in "other receivables".

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■ BALANCE SHEETS ASSETS

INTANGIBLES, FIXED ASSETS AND LONG-TERM INVESTMENTS

■ INTANGIBLE ASSETS

euro 1,317,922 thousand

(euro 1,188,704 thousand at December 31, 2000)

A summary of the changes during the year is presented as follows:

(in thousands of euro)	2001
- additions	726,701
- disposals	(49,799)
- sales and contributions of business segments	(10,510)
- use of allowances for writedowns	49,587
- amortization	(617,565)
- reclassifications	30,804
Total	129,218

An analysis of the composition and the changes in intangible assets during the year is presented as follows:

12/31/2000

(in thousands of euro)	Cost	Writedowns	Amortization	Total
Start-up and expansion costs	2,635	-	(2,635)	-
Industrial patents and intellectual property rights	2,246,544	(32,548)	(1,789,883)	424,113
Concessions, licenses, trademarks and similar rights	118,063	-	(71,536)	46,527
Work in progress and advances to suppliers	657,489	(17,039)	-	640,450
Other (*)	383,585	-	(305,971)	77,614
Total	3,408,316	(49,587)	(2,170,025)	1,188,704
(*) Including:				
Leasehold improvements	327,917	-	(252,125)	75,792
Great Jubilee 2000	55,261	-	(53,439)	1,822

CHANGES DURING THE YEAR

(in thousands of euro)	Additions	Reclassifications	Sales/ Retirements/ Transfers (a)	Writedowns/ Reinstatements	Amortization	Total
Industrial patents and intellectual property rights	-	830,788	(10,638)	-	(578,542)	241,608
Concessions, licenses, trademarks and similar rights	-	(46,404)	-	-	(37)	(46,441)
Work in progress and advances to suppliers	726,701	(887,190)	-	-	-	(160,489)
Other intangibles (*)	-	133,610	(84)	-	(38,986)	94,540
Total	726,701	30,804	(10,722)	-	(617,565)	129,218
(*) Including:						
Leasehold improvements	-	46,779	-	-	(22,510)	24,269
Great Jubilee 2000	-	-	-	-	(1,822)	(1,822)
Rights of use of transmission systems and infeasible rights of use	-	86,831	(84)	-	(14,654)	72,093

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(a) Broken down as follows:	Cost	Writedowns	Amortization	Carrying value
Industrial patents and intellectual property rights	(226,994)	32,548	183,808	(10,638)
- of which contributions of business segments	(19,257)	-	8,747	(10,510)
Concessions, licenses, trademarks and similar rights	-	-	-	-
Work in progress and advance to suppliers	(17,039)	17,039	-	-
Other intangibles	(58,397)	-	58,313	(84)
- Great Jubilee 2000	(55,261)	-	55,261	-
- Rights of use of transmission systems and indefeasible rights of use	(3,136)	-	3,052	(84)
Total	(302,430)	49,587	242,121	(10,722)

12/31/2001

(in thousands of euro)	Cost	Writedowns	Amortization	Total
Start-up and expansion costs	2,635	-	(2,635)	-
Industrial patents and intellectual property rights	2,850,338	-	(2,184,617)	665,721
Concessions, licenses, trademarks and similar rights	251	-	(165)	86
Work in progress and advances to suppliers	479,961	-	-	479,961
Other intangibles (*)	543,947	-	(371,793)	172,154
Total	3,877,132	-	(2,559,210)	1,317,922
(*) Including:				
Leasehold improvements	374,696	-	(274,635)	100,061
Rights of use of transmission systems and indefeasible rights of use	168,844	-	(96,751)	72,093

In particular:

■ Industrial patents and intellectual property rights

Consist almost entirely of applications software. Eliminations refer to software projects that were abandoned during the year or sold to Telesoft, Printel and Ti Lab following the sale and contribution of business segments by Telecom Italia during the first quarter of 2001;

■ Work in progress and advances to suppliers

Mainly refer to software projects for network and operating program applications. Beginning in 2001, all acquisitions of intangibles are managed through specific work orders and recorded in this caption. Reclassifications refer to intangible assets that went into operation during the year. *In particular, the acquisitions of intangibles from subsidiaries, affiliated companies and parent companies amounted to euro 479,610 thousand and principally refer to software projects from Telesoft (euro 347,150 thousand), Finsiel (euro 40,833 thousand) and Siemens Informatica (euro 24,904 thousand);*

■ Other intangibles

"Other intangibles" refer to:

leasehold improvements consisting of costs incurred to adapt leased properties to the Company's operating needs;

Rights of use of transmission systems (DDP) and indefeasible rights of use (IRU) that guarantee the extension of the Company's transmission capacity over a foreign territory. Such rights were reclassified from "Plant and machinery" in fixed assets.

■ FIXED ASSETS

euro 14,109,590 thousand

(euro 15,135,036 thousand at December 31, 2000)

A summary of the changes during the year is presented as follows:

(in thousands of euro)	2001
- additions	1,738,821
- disposals	(283,008)
- contributions of business segments	(658)
- utilization of the allowance for writedowns	253,877
- depreciation	(2,703,674)
- reclassifications	(30,804)
Total	(1,025,446)

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An analysis of the composition and the changes in fixed assets during the year is presented as follows:

12/31/2000

(in thousands of euro)	Cost	Upward adjustments	Writedowns	Accumulated depreciation	Total
Land and buildings	2,204,105	479,329	(2,034)	(1,126,915)	1,554,485
- nonindustrial buildings	32,610	1,447	-	(2,457)	31,600
- industrial buildings	2,171,495	477,882	(2,034)	(1,124,458)	1,522,885
Plant and machinery	46,131,761	807,246	(964,864)	(32,999,494)	12,974,649
Manufacturing and distribution equipment	907,020	2,736	-	(869,589)	40,167
Other fixed assets	642,953	4,324	-	(563,492)	83,785
Construction in progress and advances to suppliers	481,950	-	-	-	481,950
Total	50,367,789	1,293,635	(966,898)	(35,559,490)	15,135,036

CHANGES DURING THE YEAR

(in thousands of euro)	Additions	Reclassifications	Sales / Retirements/ Transfers (a)	Writedowns / Reinstatements of value	Depreciation	Total
Land and buildings		36,876	(4,002)	-	(89,888)	(57,014)
- nonindustrial buildings	-	3,566	(1,457)	-	(425)	1,684
- industrial buildings	-	33,310	(2,545)	-	(89,463)	(58,698)
Plant and machinery	-	1,397,511	(23,548)	-	(2,548,024)	(1,174,061)
Manufacturing and distribution equipment	-	6,716	(124)	-	(18,806)	(12,214)
Other fixed assets	-	68,121	(2,115)	-	(46,956)	19,050
Construction in progress and advances to suppliers	1,738,821	(1,540,028)	-	-	-	198,793
Total	1,738,821	(30,804)	(29,789)	-	(2,703,674)	(1,025,446)

(a) Broken down as follows:	Cost	Upward adjustments	Writedowns	Accumulated depreciation	Net value
Land and buildings	(5,392)	(2,249)	-	3,461	(4,002)
- nonindustrial buildings	(1,805)	(157)	-	505	(1,457)
- industrial buildings	(3,587)	(2,092)	178	2,956	(2,545)
Plant and machinery	(1,165,904)	(22,192)	253,699	910,849	(23,548)
Manufacturing and distribution equipment	(54,654)	(2,736)	-	57,266	(124)
- of which sales and contributions of business segments	(336)	-	-	292	(44)
Other fixed assets	(68,132)	(12)	-	66,029	(2,115)
- of which sales and contributions of business segments	(38,053)	-	-	37,439	(614)
Construction in progress and advances to suppliers	-	-	-	-	-
Total	(1,294,082)	(27,189)	253,877	1,037,605	(29,789)

12/31/2001

(in thousands of euro)	Cost	Upward adjustments	Writedowns	Accumulated Depreciation	Total
Land and buildings	2,247,131	465,538	(1,856)	(1,213,342)	1,497,471
- nonindustrial buildings	34,371	1,290	-	(2,377)	33,284
- industrial buildings	2,212,760	464,248	(1,856)	(1,210,965)	1,464,187
Plant and machinery	46,349,627	785,054	(711,165)	(34,622,928)	11,800,588
Manufacturing and distribution equipment	859,082	-	-	(831,129)	27,953
Other fixed assets	642,942	4,312	-	(544,419)	102,835
Construction in progress and advances to suppliers	680,743	-	-	-	680,743
Total	50,779,525	1,254,904	(713,021)	(37,211,818)	14,109,590

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Beginning 2001, all acquisitions of fixed assets are managed using specific work orders, recorded in "construction in progress and advances to suppliers". The reclassifications refer to fixed assets that went into use during the year. *In 2001, the acquisitions of fixed assets from subsidiaries, affiliated companies and parent companies amounted to euro 558,568 thousand and refer almost entirely to the acquisition of telephone exchanges from Italtel (euro 551,144 thousand).*

Accumulated depreciation at December 31, 2001, as a whole, is considered sufficient in relation to the remaining period of utilization of the assets, determined on the basis of the estimated useful lives of the installations making up the domestic telecommunications network. Depreciation is calculated by the rates used in the previous year. Accumulated depreciation covered 72.5% of fixed assets, net of writedowns at December 31, 2001, compared to 70.1% at December 31, 2000.

Rights of use of transmission systems (DDP) and indefeasible rights of use (IRU) were reclassified to "other intangibles".

At December 31, 2001, the upward adjustments made to fixed assets in 1952, 1975, 1983 and 1991 as well as those made under Law No. 823/1973 have been depreciated by an average of 77.1%.

The Company uses fixed assets purchased through lease contracts with its subsidiary Teleleasing, which are essentially stipulated under market conditions, as disclosed in the memorandum accounts and related notes. Had these contracts been accounted for using the financial method, entries would have been made in the statement of income for the interest on the financed principal and the depreciation charge attributable to the leased assets and assets would have been recorded in fixed assets and the residual debt under liabilities. The use of this method, however, would have had no material economic effect on the financial statements. The amount of financial expense included in the lease payments recorded in the 2001 statement of income is separately indicated in the note on the "use of property not owned".

■ LONG-TERM INVESTMENTS

euro 18,370,044 thousand

(euro 20,758,240 thousand at December 31, 2000)

Long-term investments decreased by euro 2,388,196 thousand compared to December 31, 2000. They include the following:

(In thousands of euro)	12/31/2001	12/31/2000
Equity investments in:		
- subsidiaries	17,659,160	18,216,954
- affiliated companies	386,923	574,830
- other companies	24,327	91,780
	18,070,410	18,883,564
Advances on future capital contributions	78,896	963,135
Accounts receivable:		
- subsidiaries	60,000	50,000
- other receivables	160,738	200,181
	220,738	250,181
Treasury stock	-	661,360
Total	18,370,044	20,758,240

■ Equity investments

euro 18,070,410 thousand

Annexes 1 and 2 present the changes in each investment during the year, together with the corresponding amount at the beginning and end of 2001, as well as, according to Article 2427, Section 5, of the Italian Civil Code, a list of all the Company's equity investments in subsidiaries and affiliated companies. Overall, investments in subsidiaries, affiliates and other companies decreased by euro 813,154 thousand compared to December 31, 2000, as shown below:

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INCREASES:

(in thousands of euro)

• Subscription to capital increases, recapitalizations and loss coverage of: TI Lab (40,338), Finsiel (2,181), Mediterranean Nautilus (1,115), Tecno Servizi Mobili (103), Seat Pagine Gialle (3), Telecom Italia Capital (1,035), TE.SS (1,550), TI Spain (703), TI Austria (1,150), TI Belgium (1,500), TI France (10,300), TI Germany (9,300), TI Netherlands (3,500), TI Switzerland (2,618), TI United Kingdom (3,702), Telecontactcenter (110), Eutelsat (38,970), Telemaco Immobiliare (75,798), Nordcom (26,983), Istituto della Enciclopedia Italiana fondata da Giovanni Treccani (710), Netesi (10,625), Stream (173,052), elespazio (70,000), TMI - Telemedia International Italia (129,522), Mirror International (30), Mirror International Holding (150,404).	755,302
• Share capital increases following the contribution of the "Venture Capital" business segment to TI Lab.	44,741
• Permanent transfer to share capital of advances on future capital contributions relating to Stet International Netherlands (2,017,341) and TI Austria (35).	2,017,376
• Subscription to Mediterranean Nautilus shares through contribution of Elettra to the same company.	13,202
• Subscription of TI Web shares through contribution of Telsi to the same company.	550,589
• Formation of TI Media through the total nonproportional spin-off of Huit.	51,005
• Subscription of Mirror International shares through contribution of investments in Inmarsat, Intelsat and New Skies Satellites to the same company.	184,100
• Subscription of Mirror International Holding shares through contribution of Mirror International to the same company.	184,100
Total increases	(A) 3,800,415

DECREASES:

• Sale/reduction of shares/quotas in: Tecno Servizi Mobili (50), Geis (946), IM.SER (75,058), Società Trasporto Telematico (2,272), Accel (99), Centro Multimediale di Terni (142), Dmail (1,309), Iri Management (6), Intelsat (8,330), Consorzio CAISI (2), Eutelsat (255,146), Mirror International Holding (234,153).	577,513
• Writedown for losses of value charged to the statement of income on the following investments: Telecom Italia Capital (1,069), Stream (241,352), TMI - Telemedia International Italia (155,166), TI Web (542,257), Trainet (668), TI Lab (49,609), Telespazio (90,782), Stet International Netherlands (1,984,511), Softe (43,938), Latin American Nautilus (28,566), IT Telecom (1,085), Edotel (116), TESS (708), TI of North America (110) and Netesi (7,764).	3,147,701
• Writedown for losses of value covered by the reserve for risks and charges on investments on the following investments: Centro Multimediale di Terni (116), Czechtel (17), Stoa' (89), Trainet (6), Consorzio Formazione Internazionale (21), Rete Telematica Piemontese (247).	496
• Investments contributed with the "Venture Capital" business segment to TI Lab: Cygent Inc (11,851), Fintech (12,911), Siosistemi (3,305), Consorzio Dreamfactory (89), Accel (1,480), Dmail.it (3,066), ITXC (2,067), Gemini Israel III LP (610), IFM Infomaster (683), Jerusalem Global Venture (773), Media Technology Venture (3,780), The Fantastic Corporation (320), Vertical Networks (2,562).	43,497
• Contribution of the investment in Elettra to Mediterranean Nautilus.	13,202
• Contribution of the investment in Telsi to TI Web.	550,589
• Total nonproportional spin-off of Huit to TI Media	51,005
• Contribution of the following investments to Mirror International: Inmarsat (9,844), Intelsat (15,135) and New Skies Satellites (20,457)	45,436
Contribution of the investment in Mirror International to Mirror International Holding	184,130
Total decreases	(B) 4,613,569
Net change for the year	(A-B) (813,154)

In particular:

- on March 1, 2001, Telecom Italia contributed the "Venture Capital and Innovation" business segment to CSELT, which then changed its name to Telecom Italia Lab, through the subscription of No. 1,352,000 shares of the same for an equivalent amount of euro 44,741 thousand. In April and November, Telecom Italia subscribed to Telecom Italia Lab's capital increases of, respectively No. 9,015,000 shares and No. 14,515,000 shares for a total of euro 40,338 thousand;
- on March 31, Telecom Italia subscribed to the Mediterranean Nautilus share capital increase for No. 20,405,000 new shares by contributing its investment in Elettra;

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- on May 7, IM.SER sold to its shareholders, including Telecom Italia, the entire investment in the company Telemaco Immobiliare that was set up by the contribution of IM.SER's "Trading Portfolio" business segment, such as to arrive at IM.SER's original shareholder base (40% Telecom Italia). The value of the purchase of the Telemaco Immobiliare shares was equal to euro 75,767 thousand. Moreover, Telecom Italia received euro 75,734 thousand from the distribution of the additional paid-in-capital by IM.SER, realizing a gain of euro 676 thousand;
- on August 20, the pledge on No. 339,291,608 ordinary Seat Pagine Gialle shares to Chase Manhattan, set up in 2000, as part of the merger of Seat Pagine Gialle and Tin. it was cancelled.
- on September 28, Telecom Italia subscribed to No. 85,674,900 TI Web shares by contributing the company Telsi Ltd.;
- on December 6 and 7, respectively, the companies Mirror International Holding and Mirror International were set up for a total investment of euro 55 thousand. On December 19, Telecom Italia contributed the investments in Intelsat, Inmarsat and New Skies Satellites to Mirror International for a total of euro 184,100 thousand, realizing a gain of euro 138,664 thousand. At the same time, Telecom Italia subscribed to two capital increases by Mirror International Holding: the first (No. 700 class A shares and No. 300 class B shares), through the contribution of the investment in Mirror International worth euro 184,130 thousand, with a loss of euro 30 thousand; the second (No. 5,600 class A shares and No. 2,400 class B shares) for euro 150.379 thousand. Also on December 19, Telecom Italia sold the entire investment in Eutelsat to Mirror International Holding for euro 365,900 thousand, realizing a gain of euro 110,754 thousand. Lastly, Telecom Italia sold the 70% stake in Mirror International Holding to Lehman Brothers for euro 234,153 thousand, bringing the percentage ownership in Mirror International Holding to 30%;
- on December 13, Telecom Italia formed the company TI Media through the total nonproportional spin-off of Huit S.A.;
- consistent with the strategic guidelines of the new Industrial Plan, extraordinary writedowns were made to the investment in Stet International Netherlands (euro 1,984,511 thousand) and in TI Web (euro 542,257 thousand) as a result of the permanent impairment in value of their relative holdings, mainly 9Telecom Group and Telekom Austria for Stet International Netherlands and GLB Serviços Interativos S.A. for TI Web;
- during the year, No. 246,989,234 Seat Pagine Gialle shares loaned in 2000 were returned by JPMorgan and Morgan Stanley. At December 31, 2001, Seat Pagine Gialle shares still on loan totaled No. 78,000,000;
- some investments in subsidiaries and affiliated companies are recorded at an amount in excess of the corresponding share of the underlying shareholders' equity, net of dividends and after consolidation adjustments (see Annex 2). These investments are maintained at their carrying values since they are expected to show future earnings and their assets are worth more than their respective book values.

In particular, in the case of the investment in Seat Pagine Gialle S.p.A., on the basis of the plans and programs drawn up by the subsidiary and designed to regain economic and financial equilibrium and profits, it is deemed that there are no elements that suggest a permanent impairment in value. The performance of Seat Pagine Gialle's stock was also considered: the market price fell to below the average carrying value (euro 1.11) and by carefully evaluating such trend it was decided that it did not reflect a permanent impairment in value. In fact, the Company maintains that the stock market price of Seat Pagine Gialle's stock is not particularly significant as regards the volumes traded, which are a very modest percentage of shares outstanding, and in relation to the particular moment in time that the world stock markets have experienced, and are still experiencing.

A comparison between the market price of the listed shares at December 31, 2001 and their carrying value shows an unrealized gain of euro 24,178 million. Further details are given in Annex 3.

■ Advances on future capital contributions

euro 78,896 thousand

These show a decrease of euro 884,239 thousand compared to December 31, 2000, principally due to the reclassification of euro 2,017,341 thousand to "equity investments in subsidiaries" in respect of the payments made to Stet International Netherlands in prior years and during 2001, in which a non interest-bearing loan was made for euro 1,133,234 thousand for the acquisition of foreign investment holdings. After this reclassification, the amount of advances on future capital contributions at December 31, 2001 to Stet International Netherlands are equal to euro 78,896 thousand. Also during the year, the advances made to Ti Austria GmbH (euro 35 thousand) were used to increase the capital of the company and those to Tecno Idro meteo (euro 97 thousand) were used to cancel the company from Companies Register.

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■ Accounts receivable

euro 220,738 thousand

Accounts receivable decreased by euro 29,443 thousand compared to December 31, 2000, and are analyzed as follows:

(In thousands of euro)	12/31/2000	Changes during the year				12/31/2001
		Disburse- ments	Reimburse- ments	Riclass. / Other	Total	
Subsidiaries	50,000	60,000	(50,000)	-	10,000	60,000
Others	200,181	31,012	(66,001)	(4,454)	(39,443)	160,738
Total	250,181	91,012	(116,001)	(4,454)	(29,43)	220,738

Subsidiaries

euro 60,000 thousand

The increase is due to the reimbursement of the loans made to Telespazio, for euro 50,000 thousand, and the loan of *euro 60,000 thousand made to Stet Hellas for the acquisition of UMTS licenses*.

Other receivables

euro 160,738 thousand

These mainly refer to:

- receivables from employees (euro 49,385 thousand), for the remaining amount of loans receivable;
- the prepayment of the tax on the reserve for employee termination indemnities (euro 90,518 thousand) required under Law No. 662 of December 23, 1996 and subsequent amendments, revalued as required by law;
- the loan made to Ros Telecom (euro 11,617 thousand) to complete the special ITUR project for the optic submarine cable linking Italy, Turkey, Ukraine and Russia.

■ Treasury stock

The extraordinary Shareholders' Meeting on May 3, 2001 voted to cancel all the savings shares of treasury stock (No. 112,998,070), for a total value of euro 710,865 thousand, following the bonus increase of share capital due to the re-denomination of share capital in euro.

The transaction is described in the note on share capital.

As required by Article 2358 of the Italian Civil Code, we report that the amount of the available reserves recorded in the financial statements at December 31, 2001 is sufficient to cover the outstanding balance of the loans made to employees of Telecom Italia and Telecom Italia Group companies for the purchase of ordinary Telecom Italia shares in connection with the Initial Public Offering under Decree of August 8, 1997 by the President of the Council of Ministers.

Furthermore, the Shareholders' Meeting on November 7, 2001, in authorizing the Board of Directors of the company to buy-back ordinary and/or savings shares for a maximum amount of euro 1,500,000,000, within the limits established by law, also authorized the directors to dispose of, for an unspecified period of time, the shares purchased for any stock option plans.

As required under Article 2427, Section 6 of the Italian Civil Code, Annex 4 sets forth a breakdown of loans under long-term investments by maturity within and beyond five years.

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As required by Article 10 of Law No. 72/1983 the table below sets forth a breakdown of upward adjustments by type of asset held by the Company at December 31, 2001.

Description	Fixed assets					Investments		
	Land and buildings	Plant and machinery	Manufacturing and distribution equipment	Other assets	Construction in progress and advances to suppliers	Total	Subsidiaries	Affiliates
(in thousands of euro)								
Historical cost of additions to 12/31/2001:								
- Upward adjustments under special laws	815,314	2,037,146	-	7,903	-	2,860,362	770,153	2,417
- Not adjusted	1,431,817	44,312,481	859,082	635,039	680,743	47,919,163	19,545,946	602,925
Total	2,247,131	46,349,627	859,082	642,942	680,743	50,779,525	20,316,099	605,342
Upward adjustments:								
- under Law No. 74 of 2.11.1952	347	-	-	-	-	347	374	-
- under Law No. 823 of 12.19.1973	1,171	-	-	-	-	1,171	546	-
- under Law No. 576 of 12.2.1975	24,741	33,865	-	476	-	59,082	13,524	-
- under Law No. 72 f 3.19.1983	182,977	751,189	-	3,836	-	938,002	93,003	1,424
- under Law No. .413 of 12.30.1991	256,302	-	-	-	-	256,302	-	-
- voluntary adjustment made in 1981	-	-	-	-	-	-	42,998	-
Total	465,538	785,054	-	4,312	-	1,254,904	150,445	1,424
Grand total	2,712,669	47,134,681	859,082	647,254	680,743	52,034,429	20,466,544	606,766

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CURRENT ASSETS

■ INVENTORIES

euro 76,894 thousand

(euro 77,153 thousand at December 31, 2000)

Inventories, which increased by euro 259 thousand compared to December 31, 2000, consist of "contract work in process" (euro 16,593 thousand) and "merchandise" (euro 60,301 thousand).

■ ACCOUNTS RECEIVABLE

euro 9,220,393 thousand

(euro 9,119,142 thousand at December 31, 2000)

Accounts receivable increased by euro 101,251 thousand compared to December 31, 2000. A breakdown and the changes that occurred during the year are given in the table below:

(in thousands of euro)	12/31/2000	Changes during the year			12/31/2001
		Utilizations	Provisions	Change	
Trade accounts receivable	4,633,346			(85,192)	4,548,154
- allowance for doubtful accounts	(337,763)	159,405	(128,142)	31,263	(306,500)
Total trade accounts receivable	4,295,583			(53,929)	4,241,654
Accounts receivable from subsidiaries	2,703,482			(489,462)	2,214,020
- allowance for doubtful accounts of subsidiaries	-	-	(17,100)	(17,100)	(17,100)
Total accounts receivable from subsidiaries	2,703,482			(506,562)	2,196,920
- of which financial receivables	1,062,416			(565,427)	496,989
Accounts receivable from affiliated companies	241,609			83,261	324,870
- allowance for doubtful accounts of affiliated companies	-	-	(13,300)	(13,300)	(13,300)
Accounts receivable from affiliated companies	241,609			69,961	311,570
- of which financial receivables	62,528			59,962	122,490
Accounts receivable from parent companies	1,208			(118)	1,090
Other receivables	1,877,260			591,899	2,469,159
- Government and other public entities for grants and subsidies	1,265			-	1,265
- deferred tax assets	485,206			23,888	509,094
- other receivables	1,390,789			568,011	1,958,800
Total	9,119,142			101,251	9,220,393

■ Trade accounts receivable

euro 4,241,654 thousand

Trade accounts receivable are shown net of the relative allowance accounts (euro 306,500 thousand, of which euro 128,142 thousand provided in the period) and decreased by euro 53,929 thousand compared to December 31, 2000. They include euro 1,204,080 thousand of receivables from other telecommunications carriers, of which euro 943,769 thousand are from wireline and mobile carriers and euro 260,311 thousand from foreign correspondents. Furthermore, the securitization of receivables, described in the accounting principles, led to a reduction in trade accounts receivable at December 31, 2001 of euro 877,448 thousand, of which euro 684,399 thousand were not yet due.

■ Accounts receivable from subsidiaries

euro 2,196,920 thousand

Accounts receivable from subsidiaries decreased by euro 506,562 thousand, compared to December 31, 2000, and include trade, financial and other receivables.

The financial receivables, equal to euro 496,989 thousand, reflect current account transactions carried out at market rates for cash management purposes and short-term loans granted to *Finsiel* (euro 104,664 thousand), *Tilab* (euro 102,693 thousand), *Saritel* (euro 67,416 thousand) and *Telespazio* (euro 61,563 thousand). Trade receivables (euro 671,132 thousand) related to TLC services rendered mainly to *TIM* (euro 213,106 thousand), *Telespazio* (euro 132,026 thousand), *Seat Pagine Gialle* (euro 48,069 thousand), *Path.Net* (euro 47,899 thousand) and a management fee from *Stet International Netherlands* (euro 31,293 thousand net of the relative allowance for doubtful accounts of euro 17,100 thousand). Other receivables (euro 1,028,799 thousand) represent accrued dividends from subsidiaries (euro 1,002,456 thousand, the details of which are shown in the note on "income from equity investments" in the statement of income, and other receivables connected with the Group's VAT settlement system.

■ Accounts receivable from affiliated companies

euro 311,570 thousand

Accounts receivable from affiliated companies increased by euro 69,961 thousand compared to December 31, 2000, and mainly refer to financial and trade accounts receivable.

The financial receivables, equal to euro 122,490, reflect current account transactions carried out at market rates for cash management purposes and short-term loans, and mainly refer to the receivable from *Stream* (euro 121,641 thousand). Trade accounts receivable (euro

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188,847 thousand) refer to TLC services rendered principally to *Auna* (euro 82,073 thousand), *Stream* (euro 23,192 thousand) and *Telekom Srbija* (euro 21,545 thousand) and include an allowance for doubtful accounts that was set up during the year in respect of receivable positions from Brasil Telekom and Telecom Argentina.

■ Accounts receivable from parent companies

euro 1,090 thousand

These accounts receivable are trade in nature and are receivable from the parent company *Olivetti*.

■ Other receivables

euro 2,469,159 thousand

Government and other public entities for grants and subsidies

euro 1,265 thousand

These consist of the receivable from the Ministry of Industry, Commerce and Handicrafts for grants to defray the costs incurred for the realization of the telecommunications installations in Southern Italy.

Deferred tax assets

euro 509,094 thousand

These are shown net of the reserve for deferred taxes (euro 588,236 thousand). The main items which gave rise to deferred tax assets are tax credits on dividends accrued but not yet received, provisions to the reserves for risks and charges and value adjustments to long-term assets and short-term assets; deferred taxes are almost entirely composed of dividend tax credits.

At December 31, 2001, about euro 211 million of deferred tax assets have not been recorded since their future recovery is not assured. The balance of deferred tax assets and liabilities is made up as follows:

(in thousands of euro)	12/31/2001 Amount due				12/31/2000 Amount due			
	Within 1 year	From 2 to 5 year	Beyond 5 year	Total	Within 1 year	From 2 to 5 year	Beyond 5 year	Total
Deferred tax assets	988,499	108,831	-	1,097,330	912,547	146,508	-	1,059,055
Reserve for deferred taxes	(573,895)	(14,341)	-	(588,236)	(566,920)	(6,929)	-	(573,849)
Net balance	414,604	94,490	-	509,094	345,627	139,579	-	485,206

Other receivables

euro 1,958,800 thousand

These increased by euro 568,011 thousand compared to December 31, 2000 and can be analyzed as follows:

(in thousands of euro)	12/31/2001	12/31/2000
- receivables from the Tax Administration	986,212	42,967
- receivables relating to personnel	114,335	80,867
- transaction for the loan of securities	235,552	867,636
- customer payments in transit with the banking and postal banking system	89,670	143,647
- receivable from TISV for "Deferred Purchasing Price"	308,049	25,775
- other items	224,982	229,897
Total	1,958,800	1,390,789

In particular, the receivables from the Tax Administration rose by euro 943,245 thousand, inasmuch as taxes paid on account in 2001, at December 31, 2001, proved to be excess of actual tax requirements.

The contra-entry to the transaction for the loan of securities described under "Investments" is in "Other liabilities".

■ SHORT-TERM FINANCIAL ASSETS

euro 240,457 thousand

(euro 331,879 thousand at December 31, 2000)

The composition and changes during the year are shown in the following table:

(in thousands of euro)	12/31/2000	Acquisitions	Changes during the year			Total	12/31/2001
			Sales/ Reimbur- sements	Writedowns/ Reimbur- sements			
Equity investments in subsidiaries	326,732	-	-	(86,275)	(86,275)		240,457
Other equity investments	5,147	1,089	(4,995)	(1,241)	(5,147)		-
Total	331,879	1,089	(4,995)	(87,516)	(91,422)		240,457

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These refer to the value of listed stock purchased for trading purposes; the "equity investments in subsidiaries" consist of TIM ordinary shares purchased for later sale.

Further details are given in Annex 3.

■ LIQUID ASSETS

euro 80,613 thousand

(euro 108,947 thousand at December 31, 2000)

Liquid assets decreased by euro 28,334 thousand compared to December 31, 2000 and include the following:

(in thousands of euro)	12/31/2001	12/31/2000
Bank and postal accounts	80,220	108,621
Checks	9	5
Cash and valuables on hand	384	321
Total	80,613	108,947

ACCRUED INCOME AND PREPAID EXPENSES

euro 695,039 thousand

(euro 844,073 thousand at December 31, 2000)

These decreased by euro 149,034 thousand compared to December 31, 2000 and include the following:

(in thousands of euro)	12/31/2001	12/31/2000
Issue discounts and similar charges	25,097	1,245
Accrued income		
- financial income	11,944	17,424
Other prepaid expenses		
- production costs	54,652	54,044
- financial expense	4,715	20,464
- other	598,631	750,896
	657,998	825,404
Accrued income and other prepaid expenses	669,942	842,828
Total	695,039	844,073

■ Issue discounts and similar charges

euro 25,097 thousand

These increased by euro 23,852 thousand compared to December 31, 2000 owing to the issue, below face value, of notes subscribed to by Sogerim and the market. See also the note on "Debentures" in the liabilities. They also include consulting expenses incurred to connection with the transaction.

■ Accrued income and other prepaid expenses

euro 669,942 thousand

These decreased by euro 172,886 thousand compared to December 31, 2000.

Accrued income includes the interest expense (euro 5,317 thousand) subsidized until 1991 by the government under Law No. 67/1988, equivalent to three percentage points of the cost of the loans which replaced those assigned to the Company through Cassa Depositi e Prestiti under Law No. 887/1984; they also include euro 5,450 thousand of income on financial derivative instruments.

Prepaid expenses are mainly related to building rents paid to *IM.SER* (euro 30,780 thousand) and *Telemaco Immobiliare* (euro 12,680 thousand), financial expenses (euro 4,715 thousand) pertaining to amounts already accrued or paid, but attributable to future years and expenses relating to *Stet International Netherlands*, (euro 584,349 thousand) for the deferral of the put option on Seat Pagine Gialle shares. See also "Purchases and sales commitments" in the memorandum accounts.

A breakdown of receivables and accrued income by maturity and type is given in Annex 4.

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■ LIABILITIES AND SHAREHOLDERS' EQUITY

SHAREHOLDERS' EQUITY

euro 15,870,654 thousand

(euro 18,713,989 thousand at December 31, 2000)

Shareholders' equity decreased by euro 2,843,335 thousand, compared to December 31, 2000; the table below shows the changes that occurred during the year:

(in thousands of euro)	12/31/2000	Changes during the year				12/31/2001
		Appropriation of 2000 net income	Other changes	Net income	Total	
Share capital	3,835,290	-	187,771	-	187,771	4,023,061
Additional paid-in capital	1,802,911	-	9,372	-	9,372	1,812,283
Reserves for inflation adjustments under						
- Law No. 72 of 3.19.1983	2,481,701	-	(186,981)	-	(186,981)	2,294,720
- Law No. 413 of 12.30.1991	468,944	-	-	-	-	468,944
Legal reserve	524,093	127,933	-	-	127,933	652,026
Reserve for treasury stock	661,360	-	(661,360)	-	(661,360)	-
Other reserves:						
- reserve for accelerated depreciation	-	121,789	(121,789)	-	-	-
- reserve Law No. 488/92	-	-	118,678	-	118,678	118,678
- reserve Law No. 342 of 11.21.2001, art. 14	888,460	-	(172,082)	-	(172,082)	716,378
- special reserve	1,243,374	-	125,688	-	125,688	1,369,062
- reserve for capital grants	456,617	-	15,330	-	15,330	471,947
- reserve, Leg. Decree No. 124/93, ex art. 13	-	169	-	-	169	169
- miscellaneous reserves	3,792,576	-	-	-	-	3,792,576
Net income	2,558,663	(249,891)	(2,308,772)	150,810	(2,407,853)	150,810
Total shareholders' equity	18,713,989	-	(2,994,145)	150,810	(2,843,335)	15,870,654

Comments on the main changes during the year are discussed for the following captions:

■ SHARE CAPITAL

Share capital increased by euro 187,771 thousand, compared to December 31, 2000. Euro 790 thousand of this increase is due to the subscription against payment, by executives of the Group, of No. 1,496,350 ordinary shares, of which No. 1,022,650 of par value Lire 1,000 each and No. 473,700 of par value euro 0.55 each, under the stock option plan. The remaining amount of euro 186,981 thousand refers to the bonus share capital increase following the re-denomination of the share capital into euro. In fact, the extraordinary Shareholders' Meeting of May 3, 2001 passed a resolution to re-denominate the share capital into euro by re-denominating the par value of the ordinary and savings shares in euro and rounding up the par value of Lire 1,000 to euro 0.55 and consequently effecting a bonus increase in share capital by:

- cancellation of No. 112,998,070 savings shares of treasury stock of par value Lire 1,000 each held in portfolio and the allocation to share capital, to simultaneously replenish the same, of an amount equal to the par value of the cancelled shares corresponding to the share of the reserve for treasury shares in portfolio which became available as a result of the cancellation;
- allocation to share capital of an amount equal to euro 186,981 thousand from the revaluation reserve ex Law No. 72 dated March 19, 1983.

After these transactions, share capital at December 31, 2001 consists of No. 5,261,533,481 ordinary shares and No. 2,053,122,025 savings shares of par value euro 0.55 each.

■ ADDITIONAL PAID-IN CAPITAL

Additional paid-in capital increased by euro 9,372 thousand, compared to December 31, 2000, due to the foregoing options exercised under the stock option plan.

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■ RESERVE FOR INFLATION ADJUSTMENTS UNDER LAW NO. 72 OF 3/19/1983

This reserve decreased by euro 186,981 thousand, compared to December 31, 2000, due to aforementioned transaction regarding the re-denomination of share capital in euro.

■ RESERVE FOR TREASURY STOCK IN PORTFOLIO

- This reserve now shows a nil balance, compared to December 31, 2000, due to the following: reclassification from the "Extraordinary reserve" of No. 8,020,000 savings shares of treasury stock with a par value of Lire 1,000 each, for an equivalent amount of euro 49,505 thousand, following the extension of the tender offer to January 10, 2001 as voted by the Shareholders' Meeting on January 14, 2000;
- cancellation of No. 112,998,070 savings shares of treasury stock of par value Lire 1,000 each held in portfolio, as described in the note on share capital, for euro 710,865 thousand.

■ RESERVE FOR ACCELERATED DEPRECIATION

The changes during the year are due to the following:

- increase as a result of the appropriation of 2000 net income (euro 121,789 thousand);
- decrease of euro 121,789 thousand after euro 6,443 thousand was subjected to ordinary taxation and euro 115,346 thousand became available by applying the 19% substitute tax, in accordance with Law No. 448/2001, art. 4; the total amount was then reclassified to "Reserve Law No. 488/92" for euro 118,678 thousand and the "Extraordinary reserve" for euro 3,111 thousand.

■ RESERVE LAW No. 488/92

This reserve includes the reclassification from the "Reserve for accelerated depreciation" which became available during the year 2001. As you will recall, Telecom Italia's Shareholders' Meeting on June 12, 2001 a portion of this reserve was restricted, equal to euro 118,678 thousand, to obtain the benefits provided under Law No. 488/92 for investment projects in the south of Italy. Since, during 2001, all the projects listed below were subsidized, the restriction became fully effective.

Details of the projects subsidized under Law 488/92 are as follows:

- project No. 01080-11 relating to the Sardinia region (euro 19,918,193.23);
- project No. 08160-12 (ex-No. 38039-11) relating to the Campania region (euro 21,809,974.85);
- project No. 08161-12 (ex-No. 38040-11) relating to the Sicily region (euro 21,809,974.85);
- project No. 08162-12 (ex-No. 38042-11) relating to the Puglia region (euro 42,465,668.53);
- project No. 08163-12 (ex-No. 38043-11) relating to the Basilicata region (euro 12,673,852.30).

■ RESERVE LAW No. 342 OF NOVEMBER 21, 2001, ART. 14

This reserve decreased by euro 172,082 thousand owing to the reclassification, to the "Special reserve", of the amount corresponding to the definitive payment of the substitute tax as set forth by this law, covered by the utilization of deferred taxes set aside in previous years.

■ SPECIAL RESERVE

The special reserve shows an increase of euro 125,688 thousand compared to December 31, 2000. The change is due to the following movements:

- reclassification of euro 49,505 thousand to "Reserve for treasury stock in portfolio";
- reclassification of euro 172,082 thousand from "Reserve Law No. 342 of November 21, 2001, art. 14";
- reclassification of euro 3,111 thousand from "Reserve for accelerated depreciation".

■ RESERVE FOR CAPITAL GRANTS

This reserve increased by euro 15,330 thousand as a result of the transfer from the "reserves for risks and charges" of the portion of grants received up to December 31, 1992 that became available in 2001 in relation to the depreciation of the assets to which such grants refer.

■ RESERVE LEGISLATIVE DECREE NO. 124/93, EX ART. 13

This reserve was established in the current year as a result of the appropriation of net income for the year 2000. It is equal to 3% of the portion of termination indemnities destined for the reserve for supplementary benefits.

Current plans do not include any transactions affecting tax-deferred equity reserves which would be subject to taxation under current laws.

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RESERVES FOR RISKS AND CHARGES

euro 1,612,737 thousand

(euro 883,705 thousand at December 31, 2000)

These increased by euro 729,032 thousand compared to December 31, 2000. The composition and changes in these reserves are described as follows:

(in thousands of euro)	12/31/2000	Changes during the year					12/31/2001
		Provision	Utilization	Released to income	Reclassifications/ Other	Total	
Reserves for taxes	141,238	570,957	(651,651)	-	56,104	(24,590)	116,648
For taxes	141,238	-	(57,644)	-	33,054	(24,590)	116,648
For deferred taxes	-	570,957	(594,007)	-	23,050	-	-
Other reserves	742,467	1,042,349	(141,704)	(131,693)	(15,330)	753,622	1,496,089
Reserve for litigation	135,411	27,844	(11,415)	(11,215)	-	5,214	140,625
Reserve for capital grants	130,843	-	-	-	(15,330)	(15,330)	115,513
Reserve for losses of subsidiaries and affiliates	15,093	66,431	(592)	-	-	65,839	80,932
Reserve for corporate restructuring	152,108	-	(101,610)	(50,498)	-	(152,108)	-
Reserve for purchase commitments	-	568,622	-	-	-	568,622	568,622
Reserve for contractual risks and other risks	309,012	379,452	(28,087)	(69,980)	-	281,385	590,397
Total	883,705	1,613,306	(793,355)	(131,693)	40,744	729,032	1,612,737

■ Reserve for taxes

euro 116,648 thousand

The reserve for taxes decreased by euro 24,590 thousand compared to December 31, 2000 and refers entirely to income taxes and other duties and taxes.

The reserve for deferred taxes shows a nil balance attributable to the set-off with deferred tax assets.

■ Other reserves

euro 1,496,089 thousand

These increased by euro 753,622 thousand, compared to December 31, 2000 and include the following reserves:

- reserve for litigation (euro 140,625 thousand): this includes prudent provisions - charged to various items of the statement of income - for probable expenses in connection with personnel disputes and litigation with third parties which had not yet been settled at the end of the year. Both the provisions and the utilizations mainly relate to disputes with third parties, whereas the releases to income refer to litigation with social security agencies;
- reserve for capital grants (euro 115,513 thousand): this includes the unavailable portion of capital grants received up to December 31, 1992 recorded herein solely for purposes of taking advantage of the tax benefits. Utilizations during the year (euro 15,330 thousand) stem from the transfer to shareholders' equity of the portion of the capital grants which became available;
- reserve for losses of subsidiaries and affiliates (euro 80,932 thousand): this includes the provisions to account for the losses in excess of the carrying value of some investments, in particular Softe (euro 42,955 thousand), TMI - Telemedia International Italia (euro 5,698 thousand), TI Capital (euro 4,529 thousand) and Trainet (euro 8,647 thousand);
- reserve for corporate restructuring: set up in 2000 subsequent to the operating agreements reached in July 2000 with the unions concerning cutbacks and layoffs under unemployment compensation plans, the reserve was utilized for euro 101,610 thousand and the portion in excess of requirements was released to income;
- reserve for purchase commitments (euro 568,622 thousand): the amount provided in 2001 relates to the forward purchase commitment of Seat Pagine Gialle shares connected with the estimate of the nonrecoverability of the original price of the options. See also "Purchases and sales commitments" in the memorandum accounts.
- reserve for contractual risks and other risks (euro 590,397 thousand): this includes the provisions recorded in previous years (mainly in relation to the contribution of the business segment "Large Buildings", the sales of Italtel and Sirti and disputes over regulations) and those arising during the year to cover the expenses related to the agreement with Vivendi/CanalPlus for the transfer of the investment in Stream (euro 247,373 thousand) and the sale of the satellite consortiums (euro 40,000 thousand). The releases to income mainly refer to the risks connected with the Iraq contract (euro 61,975 thousand).

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RESERVE FOR EMPLOYEE TERMINATION INDEMNITIES

euro 1,025,349 thousand

(euro 1,031,274 thousand at December 31, 2000)

This reserve decreased by euro 5,925 thousand, compared to December 31, 2000. The following changes took place during the year:

(In thousands of euro)

Balance at December 31, 2000	1,031,274
Changes during the year:	
- Provisions charged to income for amounts to fund employee termination indemnities accrued in favor of employees during the year plus the fixed and variable cost-of-living adjustments required under Law No. 297/1982	142,975
- Utilizations for:	
Indemnities paid to employees who took retirement or resigned during the year	(99,496)
Advances	(12,946)
Supplementary benefits (Telemaco)	(26,313)
- Amounts transferred to/from subsidiaries and other changes	(10,145)
Balance at December 31, 2001	1,025,349

LIABILITIES

euro 24,898,003 thousand

(euro 26,423,069 thousand at December 31, 2000)

A breakdown of liabilities and accrued expenses pursuant to Article 2427, Section 6, of the Italian Civil Code, is provided in Annex 5. Liabilities, which decreased by euro 1,525,066 thousand compared to December 31, 2000, include the following:

	12/31/2001			12/31/2000		
	Financial accounts payable	Trade accounts payable and other payables	Total	Financial accounts payable	Trade accounts payable and other payables	Total
(In thousands of euro)						
Debentures	8,250,000	-	8,250,000	145,456	-	145,456
Due to banks	7,308,420	-	7,308,420	12,770,486	-	12,770,486
Due to other lenders	657,777	-	657,777	658,982	-	658,982
Advances	-	2,447	2,447	-	1,178	1,178
Trade accounts payable	-	2,240,654	2,240,654	-	2,832,844	2,832,844
Accounts payable to subsidiaries	1,218,043	1,132,687	2,350,730	3,997,025	1,170,933	5,167,958
Accounts payable to affiliated companies	29,205	215,539	244,744	134,553	436,691	571,244
Accounts payable to parent companies	-	11	11	-	1,306	1,306
Taxes payable	50,162	410,390	460,552	-	494,108	494,108
Contributions to pension and social security institutions	-	767,412	767,412	-	855,729	855,729
Other liabilities	395,266	2,219,990	2,615,256	1,194,648	1,729,130	2,923,778
Total	17,908,873	6,989,130	24,898,003	18,901,150	7,521,919	26,423,069

■ Debentures

euro 8,250,000 thousand

Debentures increased by euro 8,104,544 thousand, compared to December 31, 2000, due to the issue of four notes by Telecom Italia for a total of euro 8,250,000 thousand and to the early redemption, effective December 31, 2001 with reimbursement on January 1, 2002 (as voted by the Board of Directors' Meeting on July 27, 2001), of the "SIP 1992/2010 notes reserved for subscription by employees, in service and retired". The amount to be reimbursed to employees for these notes at December 31, 2001 (euro 138,545 thousand) was recorded in "Other liabilities".

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Notes were issued as follows:

- three fixed-rate notes for a total of euro 6,750,000 thousand, entirely subscribed to by Sogerim: the first issue on May 31, 2001 in two tranches, for euro 3,300,000 thousand (the first for euro 1,800,000 thousand maturing January 20, 2006 and the second for euro 1,500,000 thousand maturing January 20, 2011); the second issue on August 3, 2001, in two tranches, for euro 3,000,000 thousand (the first for euro 1,000,000 thousand maturing January 20, 2006 and the second for euro 2,000,000 thousand maturing January 20, 2006); the third issue on December 28, 2001 for euro 450,000 thousand maturing on January 20, 2011;
- one floating-rate note issued on December 21, 2001 for the market and listed on the Luxembourg stock exchange for euro 1,500,000 thousand maturing June 21, 2005 callable at the same face value on December 21, 2003 and at every coupon date for interest thereafter.

The relative nominal rates of interest at December 31, 2001 are:

(in thousands of euro)

From 2.5% to 5%	1,500,000
From 5% to 7.5%	6,750,000
Total	8,250,000

Moreover, as from January 1, 2002, new notes were issued for euro 1 billion to substitute the notes that were extinguished. Such subscription was also extended to employees, in service and retired, of the companies with head offices in Italy, directly or indirectly, controlled by Telecom Italia. The new notes, with a face value of euro 50 each, issued at face value, are for a period of 20 years, are not listed and are negotiable at face value solely with Telecom Italia. The semiannual interest payable on January 1 and July 1 of each year not in advance is linked to the 6-month Euribor rate.

■ Due to banks

euro 7,308,420 thousand

These decreased by euro 5,462,066 thousand compared to December 31, 2000. They comprise medium/long-term debt totaling euro 2,581,365 thousand - of which euro 37,185 thousand is secured by collateral - and short-term borrowings totaling euro 4,727,055 thousand. Of the latter amount, euro 1,734,000 thousand refer to loans taken out to cover temporary liquidity requirements, euro 2,500,000 thousand of credit facilities and euro 492,454 thousand of bank overdrafts.

■ Due to other lenders

euro 657,777 thousand

These decreased by euro 1,205 thousand compared to December 31, 2000. They consist of medium/long-term financing (euro 489,988 thousand), referring almost entirely to loans made by the Cassa Depositi e Prestiti (euro 390,615 thousand) and amounts payable to IRI (euro 97,607 thousand), short-term loans payable to TI Securitisation Vehicle S.r.l. for financing using the excess liquidity generated by the securitization of receivables (euro 167,789 thousand).

■ Trade accounts payable

euro 2,240,654 thousand

These decreased by euro 592,190 thousand compared to December 31, 2000. They comprise payables to other TLC carriers amounting to euro 558,883 thousand, of which euro 250,325 thousand are due to foreign correspondents and euro 308,558 thousand to wireline and mobile operators.

■ Accounts payable to subsidiaries

euro 2,350,730 thousand

These decreased by euro 2,817,228 thousand compared to December 31, 2000. They consist of financial payables, trade accounts payable and other payables.

Financial payables (euro 1,218,043 thousand), refer to current account transactions negotiated at market rates for cash management purposes and mainly include accounts payable to *TIM* (euro 692,646 thousand) and *Seat Pagine Gialle* (euro 389,129 thousand). Trade accounts payable (euro 1,090,902 thousand) mainly refer to payables to *TIM* (euro 344,058 thousand) and *Telespazio* (euro 93,933 thousand) for the portion of TLC services invoiced by Telecom Italia to customers, and *Telesoft* (euro 218,507 thousand), *Netsiel* (euro 126,682 thousand) and *Finsiel* (euro 55,427 thousand) for supply transactions. Other payables (euro 41,785 thousand) primarily refer to capital contributions paid to the company *Path.Net* (euro 18,074 thousand) and amounts owed in connection with the Group's VAT settlement system.

■ Accounts payable to affiliated companies

euro 244,744 thousand

These decreased by euro 326,500 thousand, compared to December 31, 2000. They refer to financial payables, trade accounts payable and other payables.

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Financial payables (euro 29,205 thousand), refer to current account transactions negotiated at market rates for cash management purposes and mainly refer to accounts payable to *Teleleasing* (euro 12,541 thousand) and *Webegg* (euro 11,584 thousand). Trade accounts payable (euro 215,446 thousand) mainly refer to payables to *Italtel* (euro 129,728 thousand) for supply transactions, *Telekom Srbija* (euro 22,609 thousand) and *Teleleasing* (euro 19,197 thousand) for portions of TLC services invoiced by Telecom Italia to customers. Other payables (euro 93 thousand) refer to the liability for capital contributions payable to *Consorzio Res*.

■ **Accounts payable to parent companies**

euro 11 thousand

These refer to trade accounts payable to the parent company *Olivetti*.

■ **Taxes payable**

euro 460,552 thousand

These decreased by euro 33,556 thousand, compared to December 31, 2000, and mainly refer to:

- the payable to the Italian Treasury for withholding taxes of euro 69,697 thousand;
- the VAT liability totaling euro 270,391 thousand;
- medium/long-term financial debt (euro 50,162 thousand) relative to the agreement with the Financial Administration over the assessments received in 2001;
- the income tax liability for the year, net of advances paid and dividend tax credits, of euro 49,113 thousand.

■ **Contributions to pension and social security institutions**

euro 767,412 thousand

These decreased by euro 88,317 thousand compared to December 31, 2000.

They include amounts owed to social security and health institutions with regard to personnel. These specifically include euro 651,003 thousand payable to INPS for charges, pursuant to Law No. 58/92 (see related accounting policy) and referring to the merged company Iritel, estimated by the special Ministerial Commission in relation to the valuation of assets contributed to Iritel by the Post and Telecommunications Administration.

■ **Other liabilities**

euro 2,615,256 thousand

These decreased by euro 308,522 thousand compared to December 31, 2000.

They include, in particular, liabilities for the:

- payable to customers totaling euro 1,064,994 thousand, including deposits by subscribers against telephone conversations, pre-billed basic charges (mainly for the months of January and February 2002) and the unused portions of prepaid telephone cards;
- payable to employees amounting to euro 382,086 thousand for 2001 payrolls paid in 2002;
- payable for the TLC license fee totaling euro 656,793 thousand. Telecom Italia contested the Ministerial Decree dated March 21, 2000 that introduced Law No. 448/1998, which set forth a new license fee as from January 1, 1999 in lieu of the previous concession fee. Consequently, it did not pay the license fee for the year 2000 (euro 306,865 thousand) nor the on-account payment for the year 2001 (euro 291,522 thousand);
- transactions for the loan of Seat Pagine Gialle ordinary and savings shares (euro 235,552 thousand); these transactions, described under "Investments" in long-term investments, have a contra-entry to "Other receivables";
- payable of euro 138,545 thousand to the subscribers of the "SIP 1992/2010" notes that were called for early redemption on December 31, 2001; this is described in the note on "Debentures" in the liabilities.

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ACCRUED EXPENSES AND DEFERRED INCOME

euro 704,209 thousand

(euro 511,137 thousand at December 31, 2000)

These increased by euro 193,072 thousand, compared to December 31, 2000, and include the following:

(in thousands of euro)	12/31/2001	12/31/2000
Accrued expenses		
- production costs	3,109	2,794
- financial expense	265,069	104,461
	268,178	107,255
Deferred income		
- capital grants (unavailable portion)	134,975	146,552
- production value	297,368	254,098
- financial income	3,688	3,232
	436,031	403,882
Total	704,209	511,137

Accrued financial expenses, in particular, relate to interest accrued on notes (euro 209,734 thousand) and other medium/long-term (euro 32,613 thousand). Deferred income mainly includes pre-billed basic charges and rentals of telephone equipment (euro 145,565 thousand), the unavailable portion of capital grants received after December 31, 1992, and financial items mainly connected to loans to employees.

An analysis of liabilities and accrued expenses by maturity and type is provided in Annex 5.

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■ MEMORANDUM ACCOUNTS

Memorandum accounts totaled euro 14,936,969 thousand at December 31, 2001 and can be analyzed as follows:

■ GUARANTEES PROVIDED

euro 11,541.329 thousand

Guarantees provided consist of sureties (net of counter-guarantees received totaling euro 2,037,702 thousand), of which euro 11,191,303 thousand are on behalf of subsidiaries, euro 185,450 thousand on behalf of affiliated companies and euro 164,576 thousand on behalf of third parties. The guarantees were given mainly in respect of the notes issued by Sogerim for a total of euro 8,500,000 thousand (part of the Global Medium-Term Note Program which is completely guaranteed by Telecom Italia), other medium/long-term financial transactions, supply contracts and guarantees on bids to acquire licenses abroad.

■ PURCHASES AND SALES COMMITMENTS

euro 3,388,580 thousand

These mainly consist of commitments for the purchase of Seat Pagine Gialle shares (euro 2,985,264 thousand) under the put option on the same shares, described below, and future lease obligations plus the related purchase options (euro 378,149 thousand).

Put option on Seat Pagine Gialle shares

Under the contract stipulated on March 15, 2000 (as subsequently amended and integrated), Telecom Italia gave Huit II a put option on No. 710,777,200 Seat Pagine Gialle shares at a strike price of euro 4.2 per share. The contract provided for the exercise of such option after the deed of merger between Seat Pagine Gialle and Tin.it was recorded in the Companies Register. Huit II later transferred the put option to Chase Equity Limited (CEL), together with the ownership of the corresponding Seat Pagine Gialle shares. On December 4, 2000, CEL renegotiated the contract with Telecom Italia, extending the period to five years, with the possibility of exercising the option at an earlier date in April and May 2003, 2004 and 2005. The time extension made it possible to defer the financial impact.

Stet International Netherlands (a wholly-owned subsidiary of Telecom Italia) then purchased from CEL, through the Liberator Ltd. trust, a call option on No. 660,777,200 Seat Pagine Gialle ordinary shares with the same expiry date and strike price as the put option, paying a total premium of euro 747,016,226. Moreover, for the purpose of transferring the effects of this latter transaction to Telecom Italia, a call option was stipulated, with the same features, between the same Telecom Italia and Stet International Netherlands.

On February 25, 2002, Telecom Italia concluded the renegotiation of the December 4, 2000 put and call options with the JPMorgan Chase group.

In particular, a decision was made to reduce the price to exercise the aforementioned options from euro 4.2 to euro 3.4 per shares; in view of the reduction, Telecom agreed to pay JPMorgan Chase an amount of euro 568,622 thousand at the original expiration date of December 2005, unless Telecom Italia's decides to exercise the right to pay the present value of the same amount prior to that date.

A decision was also made to eliminate the right of either party to exercise the options, which thus expire on December 6, 2005, except for Telecom Italia's right to exercise part of the call options beforehand; the early exercise of the option per tranche, beginning from December 2004, covers 355 million Seat Pagine Gialle shares.

At the conclusion of the above transactions, Telecom Italia intends to record the equivalent value of these same shares in "Investments" under long-term investments.

The valuation of the forward purchase commitment of Seat Pagine Gialle shares at the end of 2001 led to a provision in the reserves for risks and charges (other reserves) of euro 568,622 thousand to cover the estimated nonrecoverability of the original price to exercise the option.

This provision is in line with the cost connected with the above-mentioned revision of the strike price.

■ OTHER MEMORANDUM ACCOUNTS

euro 7,060 thousand

These mainly refer to assets of third parties on loan, on deposit for safekeeping or for similar purposes (euro 6,048 thousand).

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Moreover:

- the Company issued weak letters of patronage totaling euro 1,343,595 thousand, chiefly on behalf of subsidiaries and affiliated companies to guarantee insurance policies, lines of credit and overdraft arrangements;
- assets held by third parties on loan, on deposit for safekeeping or for similar purposes amounted to euro 287,904 thousand and consist mainly of equipment leased to customers;
- guarantees provided by others for Company obligations, which consist primarily of sureties to guarantee the performance of non-financial contractual obligations, totaled euro 315,930 thousand;
- the stock of employees and private shareholders deposited at December 31, 2001 with Telecom Italia, and thus subdeposited with Monte Titoli S.p.A., equal euro 97,274 thousand, whereas those awaiting assignment or in the process of being replaced totaled euro 61,804 thousand;
- at December 31, 2001, the expense fund to safeguard the holders of savings shares, set up by resolution of the Shareholders' Meeting of June 21, 1999, amounts to euro 2,176 thousand; the remuneration of the common Representative of said shareholders will be paid out of this fund, as voted by the Meeting of the Savings Shareholders on October 31, 2001;
- the total amount of commitments at December 31, 2001 for building rent obligations to be paid to IM.SER under 21-year contracts was euro 3,678,000 thousand. The commitment from 2002 to 2006 is euro 184,670 thousand per year.

■ FINANCIAL DERIVATIVES

Derivatives refer to cross currency and interest rate swaps (to convert pound sterling loans into euro) and interest rate swaps (to convert variable rate loans into fixed rate loans and convert debt linked to domestic parameters to the 6-month Euribor rate). The following table gives a description of the financial derivative contracts outstanding at December 31, 2001 used to hedge medium/long-term debt positions, compared to those at December 31, 2000.

(in millions of euro)	Notional amount/ Capital exchanged at December 31, 2001	Notional amount/ Capital exchanged at December 31, 2000
Interest rate swap	1,437	1,698
Cross currency and interest rate swap	390	390

The following table indicates the notional amount and the average interest rate to be paid/received for interest rate swaps by maturity date.

	Maturity				
	2002	2003	2004	2005	2006
Interest rate swap:					
Fixed pay rate, variable receive rate:					
- notional amount (millions of euro)	154,9	568,1	6,0	24,1	=
- weighted average pay rate	4,65%	3,84%	4,25%	4,71%	=
- received parameter	Libor 3M euro	Libor 3M euro	Libor 3M euro	Libor 3M euro	=
Variable pay rate, variable receive rate:					
- notional amount (millions of euro)	=	=	231	237,4	215,3
- paid parameter	=	=	Euribor 6 M	Euribor 6 M	Euribor 6 M
- received parameter	=	=	Rolint	Rendint	Rendint
			Robot	Rendibot	Rendibot
				Rolint	Rolint
				Robot	Robot

Derivative transactions hedging interest rate and exchange rate risks on short-term loans equal euro 311 million at December 31, 2001 (euro 36 million at December 31, 2000), of which euro 300 million relate to forward rate agreements and euro 11 million to currency forward agreements.

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■ STATEMENTS OF INCOME

PRODUCTION VALUE

(euro 17,758,995 thousand in 2000)

euro 17,537,266 thousand

Production value, which decreased by euro 221,729 thousand compared to 2000, includes the following:

■ Sales and service revenues

euro 17,309,066 thousand

Sales and service revenues decreased by euro 153,718 thousand (-0.9%) compared to 2000.

A breakdown of sales and service revenues by type of business and geographical region, as required under Article 2427, Section 10 of the Italian Civil Code, is given below:

Breakdown by type of business

(in thousands of euro)	2001	2000	Change
Sales:			
- telephone products	260,207	349,876	(89,669)
- other goods	3,751	5,114	(1,363)
	263,958	354,990	(91,032)
Services:			
- Traffic (*)	8,813,352	9,468,380	(655,028)
- Basic charges (of which):	7,270,113	6,686,578	583,535
<i>lines leased to TLC operators</i>	<i>924,581</i>	<i>814,678</i>	<i>109,903</i>
- Activation fees	259,871	238,516	21,355
- Other	701,772	714,320	(12,548)
	17,045,108	17,107,794	(62,686)
Total	17,309,066	17,462,784	(153,718)
(*) of which:			
(in thousands of euro)	2001	2000	Change
<i>Traffic by Telecom Italia customers:</i>			
- domestic	6,005,914	6,803,565	(797,651)
- outgoing non-domestic	482,584	703,082	(220,498)
- special services and other	480,553	444,590	35,963
	6,969,051	7,951,237	(982,186)
<i>Traffic by other operators:</i>			
- domestic	1,042,499	803,383	239,116
- foreign correspondents	801,802	713,760	88,042
	1,844,301	1,517,143	327,158

Breakdown by geographical region

(in thousands of euro)	2001	2000	Change
Italy	15,823,442	15,769,831	53,611
Rest of Europe	810,590	1,012,476	(201,886)
North America	231,612	224,493	7,119
Central and South America	215,307	87,456	127,851
Australia, Africa and Asia	228,115	368,528	(140,413)
Total	17,309,066	17,462,784	(153,718)

As regards the geographical breakdown of revenues from sales and services, the "Rest of Europe", "North America", "Central and South America" and "Australia, Africa and Asia" refer almost entirely to revenues from traffic to and from these geographical regions.

Sales revenues, which decreased by euro 91,032 thousand (-25.6%) compared to 2000, derive from the sales of telephone and telematic products. The reduction is attributable to the fact that from the second half of 2000, for some customers, the Company only plans the telecommunications systems, leaving manufacturers with the responsibility for the direct sale of the equipment.

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Service revenues, which decreased by euro 62,686 thousand (-0.4%) compared to 2000, are mostly composed of traffic revenues and are shown gross of the amount due to other carriers (euro 3,414,875 thousand), which are also included in costs of "services", and basic subscriber charges. In particular, traffic revenues decreased by 6.9% mainly due to the effects of the rate changes in the second half of 2000 and 2001 which lowered the price of calls, and the strong growth in less remunerative types of traffic (traffic "carried" on behalf of other operators). Basic subscriber charges increased by 8.7% mainly as a result of the aforementioned rate changes, the development of data connections and the growing number of subscribers to various discount rate plans proposed by the Company.

Transactions for revenues from sales and services with subsidiaries, affiliated companies and parent companies totaled euro 1,507,435 thousand. They refer to:

- *TIM (euro 699,929 thousand) – revenues for mobile-fixed interconnections and lines leased;*
- *Telespazio (euro 122,620 thousand) – sale of satellite capabilities;*
- *Telecom Argentina (euro 64,078 thousand) – management fee;*
- *Teleleasing (euro 80,083 thousand) – sale of products;*
- *Auna (euro 62,520 thousand) – telephone services.*

■ **Changes in inventory of contract work in process** **- euro 19,318 thousand**

Changes in inventory of contract work in process represent the difference between the increase in work in progress and the decrease as a result of completed contracts.

■ **Increases in capitalized internal construction costs** **euro 5,615 thousand**

These consist entirely of capitalized labor costs. The item decreased by euro 5,750 thousand (-50.6%) compared to 2000.

■ **Other revenues and income** **euro 241,903 thousand**

Other revenues and income, which decreased by euro 34,911 thousand (-12.6%) compared to 2000, include the following:

Operating grants **euro 278 thousand**

Operating grants decreased by euro 244 thousand compared to 2000 and refer to grants made by the European Community to defray the costs of personnel training programs.

Other **euro 241,625 thousand**

This item decreased by euro 34,667 thousand, compared to 2000, and include the following:

(in thousands of euro)	2001	2000	Change
Gains on disposal of production assets	2,532	1,629	903
Refunds for costs of employees on loan at Group companies	28,734	31,306	(2,572)
Capital grants recorded in income	29,941	40,544	(10,603)
Late payment fees	95,658	77,130	18,528
Indemnification, reimbursements and recoveries and other miscellaneous income	84,760	125,683	(40,923)
Total	241,625	276,292	(34,667)

Transactions involving other revenues and income with subsidiaries, affiliated companies and parent companies total euro 62,932 thousand. They refer to the recovery of costs for personnel on loan and sundry services, mainly in respect of:

- *TIM (euro 10,348 thousand);*
- *TILab (euro 6,729 thousand);*
- *Telesoft (euro 5,538 thousand);*
- *Telekom Austria (euro 2,876 thousand);*
- *Auna (euro 3,550 thousand);*
- *Netsiel (euro 3,017 thousand).*

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PRODUCTION COST

(euro 14,164,129 thousand in 2000)

euro 13,553,981 thousand

Production cost, which decreased by euro 610,148 thousand compared to 2000, includes the items below:

■ Raw materials, supplies and merchandise

euro 301,447 thousand

These decreased by euro 103,139 thousand (-25.5%) compared to 2000, mainly due to lower costs for the sale of products (-euro 82,792 thousand) since, beginning from the second half of 2000, for some customers, the Company only plans the telecommunications systems, leaving manufacturers with the costs of supplying the equipment.

This item includes euro 51,664 thousand of costs incurred on behalf of subsidiaries, affiliated companies and parent companies mainly in reference to Italtel (euro 37,032 thousand) for the maintenance costs of telephone exchanges.

■ Services

euro 5,945,961 thousand

Service costs, which increased by euro 250,199 thousand (+4.4%) compared to 2000, include the following:

(in thousands of euro)	2001	2000	Change
Direct service costs	702,824	722,960	(20,136)
Operating costs	1,172,237	1,054,495	117,742
Marketing costs	574,541	630,538	(55,997)
Know-how development costs	81,484	137,995	(56,511)
Amounts due to other carriers	3,414,875	3,149,774	265,101
Total	5,945,961	5,695,762	250,199

An analysis of the composition of such costs shows the following:

- "direct service costs" include the operating and maintenance costs of the TLC network (euro 322,100 thousand), operating and maintenance costs of customer installations (euro 194,863 thousand), public telephone installations (euro 82,168 thousand) and the costs for operating the satellite systems (euro 58,037 thousand);
- "operating costs" refer to the operating and maintenance costs of buildings, vehicles, information systems and equipment, as well as general expenses. Operating costs include euro 300,757 thousand for information systems, euro 164,792 thousand for electricity for buildings and installations and euro 128,595 thousand for indirect personnel costs;
- "marketing costs" include selling expenses, after-sales assistance, customer relations, advertising and promotion; in particular, such costs include euro 215,268 thousand for advertising and promotional, euro 27,347 thousand for printing telephone bills (business contributed to Printel on February 1, 2001) and euro 69,778 thousand for the trade agreements with Internet Service Providers. The contribution of the business for printing the White Pages to Tin.it led to a reduction in costs of euro 24,966 thousand;
- "know-how development costs" are made up by costs pertaining to training, studies and research and consulting services;
- "amounts due to other carriers" mainly include euro 2,296,412 thousand due to Italian mobile operators, euro 295,885 thousand to domestic fixed carriers and euro 754,417 thousand to foreign correspondents.

The costs for services include euro 2,186,946 thousand regarding transactions with subsidiaries, affiliated companies and parent companies. They refer, in particular, to:

- TIM (euro 1,332,026 thousand) - amounts due for telecommunications services;
- Netsiel (euro 265,417 thousand) - operating information systems;
- Etec S.A. (euro 78,370 thousand) and Seat Pagine Gialle (euro 77,122 thousand) - telecommunications services;
- Saritel (euro 50,066 thousand) - supply of information services ;
- Telespazio (euro 50,702 thousand) - use of satellite circuits.

■ Use of property not owned

euro 619,499 thousand

Use of property not owned, which increased by 167,412 thousand (+37.0%) compared to 2000, includes mainly "service costs" (for the lease of TLC lines and satellite systems), amounting to euro 177,772 thousand, and "operating costs" (for building rentals, building and vehicle leases and equipment rentals), totaling euro 440,342 thousand. As regards lease installments, principal and interest total, respectively, euro 20,304 thousand and euro 22,071 thousand.

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This item comprises euro 324,824 thousand of costs for the use of property not owned relating to subsidiaries, affiliated companies and parent companies. They regard, in particular:

- IM.SER (euro 198,277 thousand) and Telemaco Immobiliare (euro 76,310 thousand) – building rentals;
- Teleleasing (euro 47,079 thousand) - mainly building leases.

■ Personnel

euro 2,644,240 thousand

Personnel costs decreased by euro 444,323 thousand (-14.4%), compared to 2000. The reduction is mainly due to the change in the average number of the work force (-11,145, -15.4%, as shown in the table below), as a result of both employee cutbacks under Law No. 223/1991 covered by the agreements reached with the labor unions in July 2000 and employees no longer with the company on account of contributions or the sale of business segments in 2000 and 2001.

Personnel costs include the costs of employees on loan to other companies (euro 28,734 thousand) and recovered from the same companies; the income from the recovery of such costs is recorded under "Other revenues and income".

A comparative breakdown of the average number of employees by professional category is given below:

	2001	2000	Change
Executives	1,005	1,084	(79)
Middle management	1,655	4,951	(3,296)
Clerical staff	49,953	54,909	(4,956)
Technicians	8,846	11,660	(2,814)
Total	61,459	72,604	(11,145)

■ Amortization, depreciation and writedowns

euro 3,479,781 thousand

Amortization, depreciation and writedowns, which decreased by euro 430,233 thousand (-11.0%) compared to 2000, include the following:

Amortization of intangible assets

euro 617,565 thousand

Amortization of intangible assets increased by euro 17,476 thousand and refers to the following assets:

(In thousands of euro)	2001	2000	Change
Start-up and expansion costs	-	527	(527)
Industrial patents and intellectual property rights	578,542	529,028	49,514
Concessions, licenses, trademarks and similar rights	37	12,155	(12,118)
Goodwill	-	655	(655)
Other intangibles	38,986	57,724	(18,738)
Total	617,565	600,089	17,476

Depreciation of fixed assets

euro 2,703,674 thousand

Depreciation of fixed assets decreased by euro 415,101 thousand (-13.3%) compared to 2000. This is attributable to the reduction in depreciable assets following the contribution of assets to IM.SER and Netsiel in December 2000 and Telesoft in the first half of 2001, as well as the change in the mix of depreciable assets.

The average depreciation rate, calculated by taking into account the above depreciation charge and the assets being depreciated, is equal to 8.4% (8.6% in 2000).

The following table shows the depreciation charge for each asset category and the related depreciation rate:

(in thousands of euro)	2001	2000	Change
Land and building	3.3% 89,888	3.3% 203,614	(113,726)
Plant and machinery	8.8% 2,548,024	9.1% 2,744,535	(196,511)
Manufacturing and distribution equipment	23.9% 18,806	25.0% 32,283	(13,477)
Other fixed assets	19.0% 46,956	29.8% 138,343	(91,387)
Total	2,703,674	3,118,775	(415,101)

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Writedowns of receivables included in current assets and liquid assets **euro 158,542 thousand**

This item, representing the provision to the allowance for doubtful accounts, decreased by euro 13,175 thousand compared to 2000, owing to lower provisions as a result of a reduction in doubtful receivables.

■ **Change in inventory of raw materials, supplies and merchandise** **- euro 19,059 thousand**

The change reflects the purchases of the products intended for sale and maintenance that were not used, net of writedowns made to account for obsolescence and the diminished usefulness of materials.

■ **Provisions for risks** **euro 76,785 thousand**

These refer to provisions made to the "*reserve for litigation*" to cover expenses connected with the probable outcome of disputes with third parties (euro 25,871 thousand) and to the "*reserve for contractual risks and other risks*" to cover risks stemming from the settlement of trade and regulatory questions (euro 50,914 thousand).

■ **Other provisions** **euro 23,430 thousand**

Other provisions refer to amounts set aside in the "*reserve for risks*" in the current year in respect of services that have accrued in relation to the suppliers of Audiotel services which use the Telecom Italia network.

■ **Miscellaneous operating costs** **euro 481,897 thousand**

Miscellaneous operating costs, which decreased by euro 17,143 thousand compared to 2000, include the following:

Losses on disposal of assets **euro 24,747 thousand**

Losses on disposal of assets decreased by euro 23,981 thousand from 2000 as a result of the completion of the network rationalization and modernization program, begun in previous years.

License fee **euro 289,582 thousand**

The TLC license fee decreased by euro 21,598 thousand, compared to 2000, owing to a reduction in the revenue base and a reduction in the rate which went from 2.7% in the prior year to 2.5% in 2001; this item mainly includes the fee on amounts invoiced under Law No. 448/1998 (euro 270,085 thousand), the fee for the assignment of available numbers (euro 7,721 thousand) and that for use of radio frequencies (euro 7,720 thousand) established by Ministerial Decree of February 5, 1998.

Other miscellaneous costs **euro 167,568 thousand**

Other miscellaneous costs, which increased by euro 28,436 thousand, compared to 2000, include the following:

(in thousands of euro)	2001	2000	Change
Other indirect duties and annual taxes, relating mainly to the local property tax, local duties, stamp and register tax, vehicle tax, Technical and Finance Office taxes and fees, license tax on mobile equipment	87,857	80,708	7,149
Contributions and membership fees	14,601	10,171	4,430
Losses on the sale of receivables	36,769	-	36,769
Other costs, essentially relating to compensation due to customers under service regulations for delays in hookups or line transfers, damages paid to third parties for line installations and maintenance and losses on settlements	28,341	48,253	(19,912)
Total	167,568	139,132	28,436

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FINANCIAL INCOME AND EXPENSE

euro 397,336 thousand

(euro 1,329,825 thousand in 2000)

The income balance, net, of financial income and expense, which decreased by euro 932,489 thousand, compared to 2000, includes the following:

(in thousands of euro)		2001	2000	Change
Income from equity investments	(A)	2,022,090	1,789,300	232,790
Other financial income	(B)	188,052	182,609	5,443
Interest and other financial expense	(C)	1,812,806	642,084	1,170,722
Total	(A+B-C)	397,336	1,329,825	(932,489)

■ Income from equity investments

Refers to the following:

(in thousands of euro)	2001	2000	Change
Dividends from subsidiaries, affiliates and other companies	1,304,634	1,181,608	123,026
Other income from equity investments:			
- tax credits on dividends	717,456	574,781	142,675
- gains on sales of investment	–	32,911	(32,911)
	717,456	607,692	109,764
Total	2,022,090	1,789,300	232,790

Tax credits on dividends are made up of euro 563,881 thousand of tax credits on dividends from subsidiaries accrued in 2001 and euro 153,575 thousand of dividends collected in 2001.

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Dividends can be analyzed as follows:

(In thousands of euro)									
Dividends from subsidiaries	2001			2000			Change		
	Accrued	Received	Total	Accrued	Received	Total	Accrued	Received	Total
- TIM	940,117	7,398	947,515	909,594	11,456	921,050	30,523	(4,058)	26,465
- Finsiel	26,682	280	26,962	29,677	-	29,677	(2,995)	280	(2,715)
- Atesia	19,625	-	19,625	17,327	-	17,327	2,298	-	2,298
- Saiat	6,791	249,060	255,851	-	-	-	6,791	249,060	255,851
- Saritel	6,445	-	6,445	-	-	-	6,445	-	6,445
- Emsa	2,795	-	2,795	5,222	-	5,222	(2,427)	-	(2,427)
- TI Media	-	-	-	-	82,776	82,776	-	(82,776)	(82,776)
- Sirti	-	-	-	-	46	46	-	(46)	(46)
	1,002,455	256,738	1,259,193	961,820	94,278	1,056,098	40,635	162,460	203,095
Dividends from affiliated companies	Received	Total		Received	Total		Received	Total	
- Eutelsat	32,265	32,265		63,362	63,362		(31,097)	(31,097)	
- Nortel Argentina	4,372	4,372		-	-		4,372	4,372	
- Siemens Informatica	4,187	4,187		4,479	4,479		(292)	(292)	
- Siteba	232	232		449	449		(217)	(217)	
- Geis	-	-		329	329		(329)	(329)	
	41,056	41,056		68,619	68,619		(27,563)	(27,563)	
Dividends from other companies	Received	Total		Received	Total		Received	Total	
- Intelsat	3,044	3,044		15,753	15,753		(12,709)	(12,709)	
- Accel	990	990		32,131	32,131		(31,141)	(31,141)	
- SIA	279	279		105	105		174	174	
- Emittenti Titoli	72	72		-	-		72	72	
- Media Technology Ventures	-	-		8,902	8,902		(8,902)	(8,902)	
	4,385	4,385		56,891	56,891		(52,506)	(52,506)	
Total	1,002,455	302,179	1,304,634	961,820	219,788	1,181,608	40,635	82,391	123,026

■ Other financial income

Includes the following:

(In thousands of euro)					
	2001			2000	Change
	Included in long-term investments	Included in current assets	Total		
Interest and fees on:					
- accounts receivable					
from subsidiaries	2,466	57,163	59,629	46,321	13,308
from affiliated companies	-	8,336	8,336	10,969	(2,633)
from others	11,918	-	11,918	8,255	3,663
- banks and the Postal Administration	-	3,966	3,966	7,332	(3,366)
- securities	-	-	-	1,307	(1,307)
	14,384	69,465	83,849	74,184	9,665
Foreign exchange gains			38,971	46,975	(8,004)
Other income			65,232	61,450	3,782
Total			188,052	182,609	5,443

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Other financial income includes euro 67,995 thousand of interest and fees on receivables from subsidiaries, affiliated companies and parent companies almost all of which refer to interest on current accounts for cash management purposes, mainly with:

- TIM (euro 18,638 thousand);
- Telespazio (euro 7,202 thousand);
- Stream (euro 7,682 thousand);
- Finsiel (euro 6,333 thousand);
- Sogei (euro 4,308 thousand).

■ Interest and other financial expense

Can be analyzed as follows:

(in thousands of euro)	2001			2000	Change
	Medium/long-term debt	Short-term borrowings	Total		
Interest and fees:					
- subsidiaries	-	257,800	257,800	78,187	179,613
- affiliated companies	-	1,455	1,455	5,703	(4,248)
- banks	133,964	429,383	563,347	412,762	150,585
- other lenders	34,583	13,763	48,346	47,567	779
- suppliers	-	858	858	34	824
- others	-	13,878	13,878	2,036	11,842
	168,547	717,137	885,684	546,289	339,395
Interest, premiums and other similar charges on notes			215,328	9,448	205,880
Foreign exchange losses			34,255	28,716	5,539
Accrued portion of issue discounts and similar charges on loans			2,197	605	1,592
Provision for "purchase commitment" for Seat Pagine Gialle shares.			568,622	-	568,622
Other financial expense			106,720	56,641	50,079
Total			1,812,806	641,699	1,171,107

The increase in interest and other financial expense is due mainly to the provision relating to the forward purchase commitment for Seat Pagine Gialle shares connected with the estimate of the nonrecoverability of the original price to exercise the option. See also "Purchases and sales commitments" in the memorandum accounts.

Interest and other financial expense include euro 259,255 thousand of interest and fees on payables to subsidiaries, affiliated companies and parent companies with regard to:

- Stet International Netherlands (euro 148,632 thousand) – financial expenses on the call option on Seat Pagine Gialle shares as part of the put option on the same shares;
- TIM (euro 61,849 thousand) and Seat Pagine Gialle (euro 27,321 thousand) – interest expenses accrued on current accounts for cash management purposes.

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VALUE ADJUSTMENTS TO FINANCIAL ASSETS

- euro 774,867 thousand

(- euro 437,757 thousand in 2000)

Value adjustments to financial assets increased by euro 337,110 thousand compared to 2000. They represent the difference between the upward adjustments of investments for euro 14 thousand and the writedowns of investments for euro 774,881 thousand regarding the following companies:

(in thousands of euro)	Writedowns to the carrying values	Writedowns recorded in the reserve for losses of subsidiaries	Total
Recorded in "long-term investments"			
- Stream	241,352	-	241,352
- TMI - Telemedia International Italia	155,166	5,698	160,864
- TI Lab	49,609	-	49,609
- Softe	43,938	42,955	86,893
- Latin American Nautilus	28,566	-	28,566
- Netesi	7,764	-	7,764
- Trainet	-	8,647	8,647
- Telecom Italia Capital	1,069	4,529	5,598
- IT Telecom	1,085	-	1,085
- Telespazio	90,782	-	90,782
- Telecom Italia do Brasil	-	2,129	2,129
- Other companies	1,603	2,473	4,076
Total	620,934	66,431	687,365
Recorded in "short-term financial assets"			
- TIM	86,275	-	86,275
- Other companies	1,241	-	1,241
Total	87,516	-	87,516

EXTRAORDINARY INCOME AND EXPENSE

- euro 2,892,922 thousand

(-euro 179,460 thousand in 2000)

This item shows a net expense balance, with an increase of euro 2,713,462 thousand. Details are as follows:

(in thousands of euro)	2001	2000	Change
Income			
- gains on disposals	264,388	666,425	(402,037)
- release of sundry reserves to income	120,478	-	120,478
- other	110,346	88,319	22,027
(A)	495,212	754,744	(259,532)
Expense			
- losses on disposals	1,134	9,870	(8,734)
- provisions and writedowns of investments	2,526,768	-	2,526,768
- restructuring costs (employee reduction plans and territorial programs)	202,556	171,740	30,816
- expenses for the sale of Stream	247,373	-	247,373
- expenses and provisions to reserve for corporate restructuring (cutbacks and layoffs)	-	285,004	(285,004)
- provisions for sale of satellite consortiums	40,000	-	40,000
- other	370,303	467,590	(97,287)
(B)	3,388,134	934,204	2,453,930
Total	(A-B)	(2,892,922)	(2,713,462)

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The reduction in "income" is mainly due to the fact that 2000 included gains on the contribution of the business segment "Large Buildings" to IM.SER (euro 509,598 thousand) and the sale of Sirti (euro 117,345 thousand), while in 2001, the gains realized related principally to the *contribution of the investments in Intelsat, Inmarsat and New Skies Satellites to Mirror International GmbH for euro 138,664 thousand and the sale of the investment in Eutelsat to Mirror International Holding for euro 110,754 thousand.*

Furthermore, in 2001, reserves were released for provisions made in prior years for euro 120,478 thousand for the reserve for the contract with Iraq (euro 61,975 thousand) and the reserve for corporate restructuring costs (euro 50,498 thousand).

"Expense" increased mainly on account of *extraordinary writedowns referring to the investments in Stet International Netherlands (euro 1,984,511 thousand) and in TI Web (euro 542,257 thousand)* in order to rationalize the foreign investment portfolio; the increase is also due to *the provisions related to the agreement with Vivendi/Canal Plus for the transfer of Stream (euro 247,373 thousand) and the sale of the satellite consortiums (euro 40,000 thousand).* Extraordinary expense also comprises euro 155,245 thousand of expense to guarantee uniform status according to Law 58/1992 under the former Telephone Employees Pension Fund (FPT) which, as required by the 2000 Finance Bill, has become part of the general "Employees Pension Fund", and euro 71,431 thousand for the extraordinary annual contribution to INPS (established by the aforementioned Finance Bill for the three years 2000 – 2002) to meet the higher financial requirements covered by the rules of the fund that was abolished.

INCOME TAXES

euro 562,022 thousand

(euro 1,748,811 thousand in 2000)

This item includes current income taxes of euro 73,555 thousand, and deferred income taxes of euro 488,467 thousand. The total decrease of euro 1,186,789 thousand is principally due to the reduction in the tax base mainly as a result of the previously mentioned extraordinary provisions charged in respect of the international investments.

Income taxes include euro 268,085 thousand for income taxes (IRPEG) and euro 293,937 thousand for the regional tax on productive activities (IRAP).

The effective tax rate in 2001 (78.84%) is higher than that of 2000 (40.60%) mainly on account of the effect of the IRAP tax on pre-tax profits as a result of higher financial and extraordinary items which are only deductible for IRPEG tax purposes. The elements for the determination of the tax rate in 2001 are as follows:

(In thousands of euro)		IRPEG	IRAP	TOTAL
Theoretical taxes	(A)	256,620	289,638	546,258
Temporary timing differences taxed and deductible in future years				
- dividends accrued		(563,881)	-	(563,881)
- provision for writedown of receivables		57,809	-	57,809
- provision to the reserves for risks and charges		158,001	-	158,001
- net change relating to installation writedowns and other items		105,118	3,013	108,131
Reversal of prior years' temporary timing differences				
- accelerated depreciation		2,320	274	2,594
- writedowns and amortization and depreciation		(125,147)	(11,136)	(136,283)
- sundry		(138,714)	435	(138,279)
Permanent differences		35,602	4,042	39,644
Differences arising from tax benefits		-	(439)	(439)
Current income taxes		(212,272)	285,827	73,555
Deferred income taxes		480,357	8,110	488,467
Taxes charged to statement of income	(B)	268,085	293,937	562,022
Income before income taxes	(C)			712,832
Theoretical tax rate	(A/C)			76.64
Effective tax rate	(B/C)			78.84

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OTHER INFORMATION

■ REMUNERATION TO DIRECTORS AND STATUTORY AUDITORS

In compliance with the art. 78 giving effect to Legislative Decree 58/1998 dated February 24, 1998, that was adopted by Consob under resolution No. 11971 of May 14, 1999 and subsequent changes under resolution No. 12475 of April 6, 2000 and No. 13086 of April 18, 2001, the remuneration to which the directors and statutory auditors are entitled for fiscal 2001 are presented in the following table. The table has been prepared by reference to the term of office, with remuneration considered on the accrual basis, except for bonuses and other incentives linked to the achievement of personal targets which are reported on a cash basis.

The remuneration for the post is decided for the individual by the appropriate corporate governance body.

Non-cash benefits correspond to the amount subject to taxes based on current tax laws.

Remuneration - prorata over the term of office in Telecom Italia - for the posts of director or statutory auditor in companies of the Group and not handed over to third parties are reported in the column "Other compensation".

Any other type of remuneration paid in 2001 is shown in the column "Other cash compensation".

INDIVIDUAL	DESCRIPTION OF POST		REMUNERATION (in thousands of euro)				
			Fees for the post	Non-cash benefits	Bonuses and other incentives	Other compensation	Other cash compensation
First and last name	Post held	Term of office					
BOARD OF DIRECTORS							
Marco TRONCHETTI PROVERA	Chairman	09/27/01-12/31/01	(1) 457				
Gilberto BENETTON	Deputy Chairman	09/27/01-12/31/01	26			(2) 6	
Enrico BONDI	Managing Director	07/31/01-12/31/01	(1) 866			(3) 69	
Carlo Orazio BUORA	Managing Director	09/27/01-12/31/01	(1) 320			(4) 4	
Umberto COLOMBO	Director	11/07/01-12/31/01	26				
Francesco DENOZZA	Director	11/07/01-12/31/01	17				
Luigi FAUSTI	Director	11/07/01-12/31/01	26				
Guido FERRARINI	Director	06/12/01-12/31/01	83			(5) 52	
Paolo GRANDI	Director	11/07/01-12/31/01	(6) 17				
Natalino IRTI	Director	11/07/01-12/31/01	26				
Gianni MION	Director	11/07/01-12/31/01	(7) 17			(8) 13	
Massimo MORATTI	Director	11/07/01-12/31/01	17				
Carlo Alessandro PURI NEGRI	Director	11/07/01-12/31/01	17				
Pier Francesco SAVIOTTI	Director	11/07/01-12/31/01	26				
Roberto ULISSI	Director	06/12/01-12/31/01	(9) 86				
Roberto COLANINNO	Chairman and Managing Director	01/01/01-07/31/01	(10)1,146			(11) 72	
Antonio TESONE	Honorary Chairman	01/01/01-09/26/01	58				
Sergio EREDE	Deputy Chairman	01/01/01-08/03/01	67			(12) 17	(13) 15,870
Angelo BENESSIA	Director	01/01/01-04/05/01	27				(14) 29
Peter A. COHEN	Director	01/01/01-11/07/01	105				
Salvatore DONATO	Director	01/01/01-11/07/01	67				
Paolo FERRO-LUZZI	Director	01/01/01-11/07/01	60				
Emilio GNUTTI	Director	01/01/01-11/07/01	67				
Jeffrey E. LIVINGSTON	Director	01/01/01-11/07/01	105				
Ettore LONATI	Director	01/01/01-11/07/01	67				
Domenico Giovanni SINISCALCO	Director	01/01/01-05/28/01	45				
Joseph M. TUCCI	Director	01/01/01-09/25/01	49				
Gérard WORMS	Director	01/01/01-11/07/01	90				

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INDIVIDUAL	DESCRIPTION OF POST		REMUNERATION (in thousands of euro)				
			Fees for the post	Non-cash benefits	Bonuses and other incentives	Other compensation	Other cash compensation
First and last name	Post held	Term of office					
BOARD OF STATUTORY AUDITORS							
Paolo GERMANI	Chairman	01/01/01-12/31/01	(9) 136				
Mario BOLDI	Acting Auditor	01/01/01-12/31/01	97				
Paolo GOLIA	Acting Auditor	01/01/01-12/31/01	97				
Fabrizio QUARTA	Acting Auditor	01/01/01-12/31/01	97				
Gianfranco ZANDA	Acting Auditor	01/01/01-12/31/01	97			(15) 132	

(1) The amount includes the remuneration ex art. 2389, section 2, of the Italian Civil Code;

(2) Remuneration for the post of director in the subsidiary Seat Pagine Gialle;

(3) Remuneration for the post of Chairman of Seat Pagine Gialle, Telecom Italia Mobile and Telespazio paid over to Telecom Italia;

(4) Remuneration for the post of Deputy Chairman in Telecom Italia Mobile paid over to Telecom Italia;

(5) Remuneration for the posts of director and Committee member in Telecom Italia Mobile;

(6) Remuneration paid over to Banca Intesa BC;

(7) Remuneration paid out to Edizione Holding;

(8) Remuneration for the posts of director and Committee member in Seat Pagine Gialle and director in Telecom Italia Mobile paid over to Edizione Holding;

(9) Remuneration for the post was not received by the person but will be paid over to the Administration Fund of the entity for which he works;

(10) The remuneration comprises all remuneration, including remuneration for all posts of whatever nature as well as posts covered in other subsidiaries or affiliates of Telecom Italia. In particular, waiver has been given for the portions to which he is entitled of the remuneration to the Board of Directors already voted by the Telecom Italia Shareholders' Meeting ex. art. 2389, section 1 of the Italian Civil Code;

(11) Remuneration for the post of Chairman and Deputy Chairman of the subsidiaries Telecom Italia Mobile and Seat Pagine Gialle was paid over to Telecom Italia;

(12) Remuneration for the posts of director and Committee member in Seat Pagine Gialle;

(13) Fees paid in 2001 to the professional association Bonelli Erede Pappalardo of which l'Avv. Erede is a shareholder. The amount includes the fees paid by Telecom Italia Mobile and by Seat Pagine Gialle;

(14) Remuneration paid to Studio Benessia Maccagno in 2001 for professional services rendered to Telecom Italia Mobile S.p.A.;

(15) Remuneration for the post of Chairman of the Board of Statutory Auditors in the subsidiary IT Telecom and Statutory Auditor in the subsidiaries Finsiel, Immsi, Telespazio and Telecom Italia Mobile.

■ INTRODUCTION OF THE EURO

The expenses borne during the year for the introduction of the euro currency total euro 22 million. Euro 2 million of this amount have been charged to the statement of income in *"production cost: services"* since they refer to work on the system for the conversion of the accounting balances into euro and euro 20 million have been charged to intangibles under *"industrial patents and intellectual property rights"* in respect of new and more complex software programs now in use.

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■ ANNEX 1

LONG-TERM INVESTMENTS AND ADVANCES ON FUTURE CAPITAL CONTRIBUTIONS OF SUBSIDIARIES AND AFFILIATED COMPANIES

	12/31/2000				Changes during the year						12/31/2001			
	Cost	Upward adjust- ments	Write- downs	Carrying value	Purchases/ Subscrip- tions	Reclassi- fications	Disposals (1)	Writedowns (-)/Reinsta- tements of value (+)	Capital Replenish- ments	Total	Cost	Upward adjust- ments	Write- downs	Carrying value
(in thousands of euro)														
Equity investments in subsidiaries														
ATESIA	3,707	-	-	3,707	-	-	-	-	-	-	3,707	-	-	3,707
CONSUTEL (in liquidation)	1,340	-	(1,340)	-	-	-	-	-	-	-	1,340	-	(1,340)	-
EDOTEL	620	-	-	620	-	-	-	(116)	-	(116)	620	-	(116)	504
ELETTRA TLC	13,376	-	(174)	13,202	-	(13,202)	-	-	-	(13,202)	-	-	-	-
EMSA	29,136	240	-	29,376	-	-	-	-	-	-	29,136	240	-	29,376
FINSIEL	362,070	-	-	362,070	2,181	-	-	-	-	2,181	364,251	-	-	364,251
GOLDEN NETHERLANDS	94	-	-	94	-	(94)	-	-	-	(94)	-	-	-	-
HUIT	51,005	-	-	51,005	-	(51,005)	-	-	-	(51,005)	-	-	-	-
IMMSI	4,428	13,800	-	18,228	-	-	-	-	-	-	4,428	13,800	-	18,228
IREOS (in liquidation)	103	-	(103)	-	-	-	-	-	-	-	103	-	(103)	-
IRIDIUM ITALIA (in liquidation)	775	-	(775)	-	-	-	-	-	-	-	775	-	(775)	-
IT TELECOM	25,823	-	-	25,823	-	-	-	(1,085)	-	(1,085)	25,823	-	(1,085)	24,738
LATIN AMERICAN NAUTILUS S.A.	47,863	-	-	47,863	-	-	-	(28,566)	-	(28,566)	47,863	-	(28,566)	19,297
MED-1 Submarine Cables	5	-	-	5	-	-	-	-	-	-	5	-	-	5
MEDITERRANEAN NAUTILUS S.A.	35	-	-	35	1,115	13,202	-	-	-	14,317	14,352	-	-	14,352
MIRROR INTERNATIONAL GMBH	-	-	-	-	30	(30)	-	-	-	-	-	-	-	-
MIRROR INTERNATIONAL HOLDING	-	-	-	-	150,404	83,749	(234,153)	-	-	-	-	-	-	-
NETSIEL	108,486	-	-	108,486	-	-	-	-	-	-	108,486	-	-	108,486
PATH.NET	25,820	-	-	25,820	-	-	-	-	-	-	25,820	-	-	25,820
SAIAT	34,743	11,617	-	46,360	-	-	-	-	-	-	34,743	11,617	-	46,360
SARITEL	17,783	-	-	17,783	-	-	-	-	-	-	17,783	-	-	17,783
SCUOLA SUPERIORE GUGLIELMO REISS ROMOLI	1,549	-	-	1,549	-	-	-	-	-	-	1,549	-	-	1,549
SEAT PAGINE GIALLE	6,732,909	-	-	6,732,909	3	-	-	-	-	3	6,732,912	-	-	6,732,912
SODALIA	4,138	-	(51)	4,087	-	-	-	-	-	-	4,138	-	(51)	4,087
SOFTS	5,882	38,056	-	43,938	-	-	-	(43,938)	-	(43,938)	5,882	38,056	(43,938)	-
STET INTERNATIONAL NETHERLANDS	5,721,997	-	(23,197)	5,698,800	-	2,017,435	-	(1,984,511)	-	32,924	7,772,566	-	(2,040,842)	5,731,724
TECNO SERVIZI MOBILI (ex HITECO CONS.)	-	-	-	-	103	-	(50)	-	-	53	53	-	-	53
TELECOM ITALIA CAPITAL	34	-	-	34	1,035	-	-	(1,069)	-	(34)	1,069	-	(1,069)	-
TELECOM ITALIA GMBH	43	-	-	43	-	-	-	-	-	-	43	-	-	43
TELECOM ITALIA DO BRASIL	2,120	-	(2,120)	-	-	-	-	-	-	-	2,120	-	(2,120)	-
TELECOM ITALIA MOBILE	4,202,226	84,144	-	4,286,370	-	-	-	-	-	-	4,202,226	84,144	-	4,286,370
TELECOM ITALIA of NORTH AMERICA	3,585	-	(1,661)	1,924	-	-	-	(110)	-	(110)	3,585	-	(1,771)	1,814
TELECONTACTCENTER	-	-	-	-	110	-	-	-	-	110	110	-	-	110
TELE PAY ROLL SERVICE	1,841	-	(23)	1,818	1,550	-	-	(708)	-	842	3,391	-	(731)	2,660
TELESOFT	12,550	-	-	12,550	-	-	-	-	-	-	12,550	-	-	12,550
TELESPAZIO	101,226	-	-	101,226	-	-	-	(90,782)	70,000	(20,782)	86,260	-	(5,816)	80,444
TELIIMM	18	-	-	18	-	-	-	-	-	-	18	-	-	18
TELSI	550,589	-	-	550,589	-	(550,589)	-	-	-	(550,589)	-	-	-	-
TI AUSTRIA GMBH	-	-	-	-	1,150	35	-	-	-	1,185	1,185	-	-	1,185
TI BELGIUM	1,500	-	-	1,500	1,500	-	-	-	-	1,500	3,000	-	-	3,000
TI FRANCE	8	-	-	8	10,300	-	-	-	-	10,300	10,308	-	-	10,308

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» **Equity investments in subsidiaries**

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	Cost	Upward adjust- ments	Write- downs	Carrying value	Purchases/ Subscrip- tions	Reclassi- fications	Disposals (1)	Writedowns (-)/Reinsta- tements of valute (+)	Capital Replenish- ments	Total	Cost	Upward adjust- ments	Write- downs	Carrying value
(in thousands of euro)														
TI GERMANY	25	-	-	25	9,300	-	-	-	-	9,300	9,325	-	-	9,325
TI IRELAND	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TI LAB (ex CSELT)	78	2,588	-	2,666	40,338	44,741	-	(49,609)	-	35,470	85,157	2,588	(49,609)	38,136
TI MEDIA	-	-	-	-	-	51,005	-	-	-	51,005	51,005	-	-	51,005
TI NETHERLANDS	18	-	-	18	3,500	-	-	-	-	3,500	3,518	-	-	3,518
TI SPAIN	-	-	-	-	703	-	-	-	-	703	703	-	-	703
TI SWITZERLAND	13	-	-	13	2,618	-	-	-	-	2,618	2,631	-	-	2,631
TI UNITED KINGDOM	2	-	-	2	3,702	-	-	-	-	3,702	3,704	-	-	3,704
TI WEB	31	-	-	31	-	550,589	-	(542,257)	-	8,332	550,620	-	(542,257)	8,363
TMI - TELEMEDIA INTERNATIONAL ITALIA	86,521	-	(60,877)	25,644	-	-	-	(155,166)	129,522	(25,644)	86,521	-	(86,521)	-
TRAINET	674	-	-	674	-	(6)	-	(668)	-	(674)	674	-	(674)	-
Consorzio GRUPPO STET PER ITALIA 90 (in liquidation)	41	-	-	41	-	-	-	-	-	-	41	-	-	41
	18,156,830	150,445	(90,321)	18,216,954	229,642	2,145,830	(234,203)	(2,898,585)	199,522	(557,794)	20,316,099	150,445	(2,807,384)	17,659,160
(1)														
								TMI - TELEMEDIA INTERNATIONAL ITALIA	MIRROR INTERN. HOLDING				TECNO SERVIZI IMMOBILIARI	
Cost								129,522	234,153				50	
Writedowns								(129,522)	-				-	
								-	234,153				50	

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	12/31/2000				Changes during the year						12/31/2001			
		Upward adjust- ments	Write- downs	Carrying value	Purchases/ Subscrip- tions	Reclassi- fications	Disposals (1)	Writedowns (-)/Reinsta- tements of valute (+)	Capital Replenish- ments	Total	Cost	Upward adjust- ments	Write- downs	Carrying value
(in thousands of euro)	Cost													
Equity investments in affiliated companies														
ANCITEL	93	-	-	93	-	(93)	-	-	-	(93)	-	-	-	-
ASTELIT	1	-	(1)	-	-	-	-	-	-	-	1	-	(1)	-
CARTESIA	516	-	-	516	-	-	-	-	-	-	516	-	-	516
CYGENT INC.	11,851	-	-	11,851	-	(11,851)	-	-	-	(11,851)	-	-	-	-
CZECH TELESPIAZIO (in liquidation)	17	-	-	17	-	(17)	-	-	-	(17)	17	-	(17)	-
EUTELSAT	216,176	-	-	216,176	38,970	-	(255,146)	-	-	(216,176)	-	-	-	-
FINTECH	12,911	-	-	12,911	-	(12,911)	-	-	-	(12,911)	-	-	-	-
GEIS - GENERAL ELECTRIC INFORMATION SERVICES	15,248	-	(14,302)	946	-	-	(946)	-	-	(946)	-	-	-	-
IM.SER	202,335	-	-	202,335	-	-	(75,058)	-	-	(75,058)	127,277	-	-	127,277
MIRROR INTERNATIONAL HOLDING	-	-	-	-	-	100,351	-	-	-	100,351	100,351	-	-	100,351
NORDCOM	-	-	-	-	26,983	-	-	-	-	26,983	26,983	-	-	26,983
NORTEL INVERSORA	19,114	-	-	19,114	-	-	-	-	-	-	19,114	-	-	19,114
SIEMENS INFORMATICA	2,417	1,424	-	3,841	-	-	-	-	-	-	2,417	1,424	-	3,841
SIOSISTEMI	3,305	-	-	3,305	-	(3,305)	-	-	-	(3,305)	-	-	-	-
SITEBA	751	-	-	751	-	-	-	-	-	-	751	-	-	751
STREAM	247,940	-	(147,724)	100,216	-	-	-	(241,352)	173,052	(68,300)	247,940	-	(216,024)	31,916
SOCIETÀ TRASPORTO TELEMATICO	2,272	-	-	2,272	-	-	(2,272)	-	-	(2,272)	-	-	-	-
TELEMACO IMMOBILIARE	-	-	-	-	75,798	-	-	-	-	75,798	75,798	-	-	75,798
VOICE MAIL INTERNATIONAL (in liquidation)	3,801	-	(3,801)	-	-	-	-	-	-	-	3,801	-	(3,801)	-
Consorzio DREAMFACTORY	89	-	-	89	-	(89)	-	-	-	(89)	-	-	-	-
Consorzio FORMAZIONE INTERNAZIONALE	21	-	-	21	-	(21)	-	-	-	(21)	-	-	-	-
Consorzio R.E.S.	155	-	-	155	-	-	-	-	-	-	155	-	-	155
Consorzio TELCAL	211	-	-	211	-	-	-	-	-	-	211	-	-	211
Consorzio TELEMED (in liquidation)	10	-	-	10	-	-	-	-	-	-	10	-	-	10
	739,234	1,424	(165,828)	574,830	141,751	72,064	(333,422)	(241,352)	173,052	(187,907)	605,342	1,424	(219,843)	386,923
(1)				GEIS	SOCIETÀ TRASPORTO TELEMATICO			CONSORZIO FORMAZ. ITZ		IM.SER		STREAM		EUTELSAT
Cost				15,248	2,272			21		75,058		173,053		255,146
Writedowns				(14,302)	-			(21)		(173,053)		(173,053)		-
				946	2,272			-		75,058		-		255,146

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	12/31/2000					Changes during the year					12/31/2001				
		Upward adjust- ments	Write- downs	Carrying value	Purchases/ Subscrip- tions	Reclassi- fications	Disposals (1)	Writedowns (-)/Reinsta- tements of valute (+)	Capital Replenish- ments	Total	Cost	Upward adjust- ments	Write- downs	Carrying value	
(in thousands of euro)	Cost														
Equity investments in other companies															
ACCEL	1,579	-	-	1,579	-	(1,480)	(99)	-	-	(1,579)	-	-	-	-	
ANCITEL	-	-	-	-	-	93	-	-	-	93	93	-	-	93	
CAF ITALIA	1	-	-	1	-	-	-	-	-	-	1	-	-	1	
CENTRO MULTIMEDIALE DI TERNI	258	-	-	258	-	(116)	(142)	-	-	(258)	-	-	-	-	
DMAIL.IT	4,375	-	-	4,375	-	(3,066)	(1,309)	-	-	(4,375)	-	-	-	-	
EDINDUSTRIA	44	-	(6)	38	-	-	-	-	-	-	44	-	(6)	38	
EMITTENTI TITOLI	423	-	-	423	-	-	-	-	-	-	423	-	-	423	
ERTICO	1	-	-	1	-	-	-	-	-	-	1	-	-	1	
EURESCOM	9	-	-	9	-	-	-	-	-	-	9	-	-	9	
FRATELLI ALINARI	3,101	-	-	3,101	-	-	-	-	-	-	3,101	-	-	3,101	
GEMINI ISRAEL III P	610	-	-	610	-	(610)	-	-	-	(610)	-	-	-	-	
IFM INFOMASTER	683	-	-	683	-	(683)	-	-	-	(683)	-	-	-	-	
INMARSAT	9,844	-	-	9,844	-	(9,844)	-	-	-	-	-	-	-	-	
INSULA	248	-	-	248	-	-	-	-	-	-	248	-	-	248	
INTELSAT	23,465	-	-	23,465	-	(15,135)	(8,330)	-	-	(23,465)	-	-	-	-	
IRI MANAGEMENT	7	-	(1)	6	-	-	(6)	-	-	(6)	-	-	-	-	
ISTITUTO DELLA ENCICLOPEDIA ITALIANA FONDATA DA GIOVANNI TRECCANI	4,545	-	(1,424)	3,121	710	-	-	-	-	710	5,255	-	(1,424)	3,831	
ITXC (ex Efusion)	2,067	-	-	2,067	-	(2,067)	-	-	-	(2,067)	-	-	-	-	
JERUSALEM GLOBAL VENTURE	773	-	-	773	-	(773)	-	-	-	(773)	-	-	-	-	
MEDIA TECHNOLOGY VENTURE	3,780	-	-	3,780	-	(3,780)	-	-	-	(3,780)	-	-	-	-	
MIX	10	-	-	10	-	-	-	-	-	-	10	-	-	10	
NETESI	-	-	-	-	10,625	-	-	(7,764)	-	2,861	10,625	-	(7,764)	2,861	
NEW SKIES SATELLITES	20,457	-	-	20,457	-	(20,457)	-	-	-	(20,457)	-	-	-	-	
RETE TELEMATICA PIEMONTESE	247	-	-	247	-	(247)	-	-	-	(247)	-	-	-	-	
SIA	11,278	-	-	11,278	-	-	-	-	-	-	11,278	-	-	11,278	
SODETEL	4	-	-	4	-	-	-	-	-	-	4	-	-	4	
STOA'	89	-	-	89	-	(89)	-	-	-	(89)	-	-	-	-	
TECNO IDRO METEO (in liquidation)	43	-	(43)	-	-	-	-	-	-	-	-	-	-	-	
TELEPORTO ADRIATRICO	124	-	-	124	-	-	-	-	-	-	124	-	-	124	
THE FANTASTIC CORPORATION	320	-	-	320	-	(320)	-	-	-	(320)	-	-	-	-	
UBAE	1,897	-	-	1,897	-	-	-	-	-	-	1,897	-	-	1,897	
VERTICAL NETWORKS	2,562	-	-	2,562	-	(2,562)	-	-	-	(2,562)	-	-	-	-	
Consorzio C.I. MARK	3	-	-	3	-	-	-	-	-	-	3	-	-	3	
Consorzio CAISI	2	-	-	2	-	-	(2)	-	-	(2)	-	-	-	-	
Consorzio CEFRIEL	36	-	-	36	-	-	-	-	-	-	36	-	-	36	
Consorzio CIES	26	-	-	26	-	-	-	-	-	-	26	-	-	26	
Consorzio CO.TIM (in liquidation)	4	-	(2)	2	-	-	-	-	-	-	4	-	(2)	2	
Consorzio DI BIOINGEGNERIA ED INFORMATICA MEDICA15	-	-	-	15	-	-	-	-	-	-	15	-	-	15	
Consorzio Nazionale Imballaggi (CONAI)	1	-	-	1	-	-	-	-	-	-	1	-	-	1	
Consorzio ELIS	3	-	-	3	-	-	-	-	-	-	3	-	-	3	
Consorzio ENERGIA FIERA DISTRICT	2	-	-	2	-	-	-	-	-	-	2	-	-	2	
Consorzio GE.SE.CE.DI	72	-	-	72	-	-	-	-	-	-	72	-	-	72	
Consorzio NETTUNO	41	-	-	41	-	-	-	-	-	-	41	-	-	41	
Consorzio TECHNAPOLI	207	-	-	207	-	-	-	-	-	-	207	-	-	207	
	93,256	-	(1,476)	91,780	11,335	(61,136)	(9,888)	(7,764)	-	(67,453)	33,523	-	(9,196)	24,327	
Total long-term equity investments	18,989,320	151,869	(257,625)	18,883,564	382,728	2,156,758	(577,513)	(3,147,701)	372,574	(813,154)	20,954,964	151,869	(3,036,423)	18,070,410	
Advances on future capital contributions of subsidiaries and affiliated companies															
	963,135	-	-	963,135	1,133,234	(2,017,473)	-	-	-	(884,239)	78,896	-	-	78,896	

(1)	DMAIL.IT	ACCEL	Cons. CAISI	STOA'	CENTRO MULTIM. TERNI	RTP	IRI MANA- GEMENT	TECNO IDRO METEO
Cost	1,309	99	2	89	258	247	7	140
Writedowns	-	-	-	(89)	(116)	(247)	(1)	(140)
	1,309	99	2	-	142	-	6	-

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■ ANNEX 2

LIST OF EQUITY INVESTMENTS IN SUBSIDIARIES AND AFFILIATED COMPANIES AT 12/31/2001

(in thousands of euro)			Share capital (1)	Shareholders' equity (1) (2)	Net income/ (loss) (1)	Percentage ownership (%)	Share of shareholders' equity (A) (3)	Carrying value (B)	Difference (B-A)
Registered office									
Subsidiaries									
ATESIA	Rome		3,150	42,281	20,221	100.00%	22,656	3,707	(18,949)
CONSULTEI (in liquidation)	Rome		1,323	(2,001)	(69)	100.00%	(2,001)	-	2,001
EDOTEL	Turin		1,020	840	(79)	60.00%	504	504	-
EMSA	Turin		580	36,212	3,104	100.00%	33,417	29,376	(4,041)
FINSIEL	Rome		59,982	206,170	37,110	77.19%	257,799	364,251	106,452
IMMSI	Turin		114,400	139,115	1,591	45.31%	63,028	18,228	(44,800)
IREOS (in liquidation)	Rome		100	(1,483)	(144)	100.00%	(1,483)	-	1,483
IRIDIUM ITALIA (in liquidation)	Rome		2,575	(3,767)	-	30.00%	(1,130)	-	1,130
IT TELECOM	Rome		25,000	24,738	(880)	100.00%	24,738	24,738	-
LATIN AMERICAN NAUTILUS S.A.	Luxembourg	USD (.000)	60,000 68,082	24,295 27,568	(35,402) (40,171)	70.00%	19,297	19,297	-
MED-1 Submarine Cables	Ramat Gan (Israel)	NIS (.000)	100 26	(101) (26,007)	(27) (6,966)	23.18%	- (6,027)	5	- 6,032
MEDITERRANEAN NAUTILUS S.A.	Luxembourg	USD (.000)	326,480 370,457	325,133 368,928	(1,302) (1,477)	62.51%	- 230,614	14,352	- (216,262)
NETSIEL	Bari		65,074	159,122	396	68.65%	109,239	108,486	(753)
PATH.NET	Rome		25,800	26,182	754	99.99%	26,179	25,820	(359)
SAIAT	Turin		35,745	49,920	6,867	100.00%	43,129	46,360	3,231
SARITEL	Pomezia (Rome)		11,445	36,210	7,206	100.00%	29,765	17,783	(11,982)
SCUOLA SUPERIORE GUGLIELMO REISS ROMOLI	L'Aquila		1,549	3,250	913	100.00%	3,250	1,549	(1,701)
SEAT PAGINE GIALLE	Milan		341,184	1,640,852	(259,590)	53.21%	828,028	6,732,912	5,904,884
SODALIA	Trento		3,099	4,720	197	100.00%	4,720	4,087	(633)
SOFTE	Luxembourg	USD (.000)	100,000 113,470	15,524 17,615	(192,375) (218,288)	100.00%	(42,986)	-	42,986
STET INTERNATIONAL NETHERLANDS	Amsterdam (Holland)	NLG (.000)	2,378,339	4,889,068	(2,790,653)	100.00%	4,650,612	5,731,724	1,081,112
TECNO SERVIZI MOBILI (ex HITECO Cons.)	Rome		26	112	14	51.00%	57	53	(4)
TELECOM ITALIA CAPITAL	Luxembourg	USD (.000)	1,000 1,135	(3,991) (4,529)	(4,226) (4,795)	100.00%	(4,529)	-	4,529
TELECOM ITALIA GMBH	Wien (Austria)	Ats (.000)	500 36	5,505 400	4,023 293	100.00%	400	43	(357)
TELECOM ITALIA DO BRASIL	Rio de Janeiro (Brazil)	RD (.000)	2,700 1,320	(2,461) (1,203)	(127) (62)	99.99%	(1,203)	-	1,203
TELECOM ITALIA MOBILE (6)	Turin		513,964	10,331,807	1,906,547	54.82%	3,886,203	4,286,370	400,167
TELECOM ITALIA of NORTH AMERICA	New York (USA)	USD (.000)	5,550 6,298	1,598 1,442	(953) (1,452)	100.00%	1,442	1,814	372
TELECONTACTCENTER	Naples		110	258	148	100.00%	258	110	(148)
TELE PAY ROLL SERVICE	Rome		2,840	2,661	(1,786)	100.00%	2,660	2,660	-
TELESOFT	Rome		21,060	55,441	(4,105)	60.00%	33,265	12,550	(20,715)
TELESPAZIO	Rome		50,000	80,443	(133,338)	100.00%	77,138	80,444	3,306
TELIMM	Turin		4,255	34,850	869	0.58%	202	18	(184)
TI AUSTRIA GMBH	Wien (Austria)		35	877	(308)	100.00%	877	1,185	308
TI BELGIUM	Bruxelles (Belgium)		3,000	2,662	(255)	100.00%	2,662	3,000	338
TI FRANCE	Parigi (France)		10,308	11,815	1,802	100.00%	11,815	10,308	(1,507)
TI GERMANY	Frankfurt (Germany)		25	10,053	1,094	100.00%	10,053	9,325	(728)
TI IRELAND	Dublin (Ireland)		-	(12)	(5)	100.00%	(12)	-	12
TI LAB (ex CSELT)	Turin		25,500	38,135	(67,381)	100.00%	38,136	38,136	-

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» **Subsidiaries**

(in thousands of euro)			Share capital (1)	Shareholders' equity (1) (2)	Net income/ (loss) (1)	Percentage ownership (%)	Share of shareholders' equity (A) (3)	Carrying value (B)	Difference (B-A)
Registered office									
TI MEDIA	Luxembourg		4,310	314,866	-	100.00%	314,864	51,005	(263,859)
TI NETHERLANDS	Amsterdam (Holland)		18	3,667	148	100.00%	3,667	3,518	(149)
TI SPAIN	Madrid (Spain)		703	691	(12)	100.00%	691	703	12
TI SWITZERLAND	Zurich (Switzerland)	CHF (.000)	2,000	3,937	444				
			1,349	2,655	299	100.00%	2,655	2,631	(24)
TI UNITED KINGDOM	London (UK)	£ (.000)	2,295	2,440	305				
			3,772	4,011	501	100.00%	4,011	3,704	(307)
TI WEB	Luxembourg	USD (.000)	856,779	(1,522)	(857,083)				
			972,187	(1,727)	(972,532)	100.00%	8,363 (8)	8,363	-
TMI - TELEMEDIA INTERNATIONAL ITALIA	Rome		86,511	(5,698)	(160,863)	100.00%	(4,000)	(4) (5)	- 4,000
TRAINET	Rome		674	(8,647)	(9,474)	100.00%	(8,647)	(4) (10)	- 8,647
Consorzio GRUPPO STET PER ITALIA 90 (in liquidation)	Rome		52	52	-	80.00%	41	41	-
								17,659,160	6,984,685

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(in thousands of euro)			Share capital (1)	Shareholders' equity (1) (2)	Net income/ (loss) (1)	Percentage ownership (%)	Share of shareholders' equity (A) (3)	Carrying value (B)	Difference (B-A)
Registered office									
Affiliated companies									
ASTELIT	Moscow (Russia)	USD (,000)	-	(5,544)	(606)	50.00%	(3,145)	(4)	-
			-	(6,291)	(688)				3,145
CARTESIA	Rome		1,033	115	(669)	50.00%	58	(4)	516
									459
CZECH TELESPIAZIO (in liquidation)	Prague (Czech Rep.)	K.C. (,000)	750	19	(1)		-		-
			23	-	-	40.00%	-		-
IM.SER	Turin		144,480	306,587	(4,092)	40.00%	122,635		127,277
									4,642
MIRROR INTERNATIONAL HOLDING	Luxembourg		250	250	-	30.00%	75	(11)	100,351
									100,276
NORDCOM	Milan		90	89	(4)	42.00%	37		26,983
									26,946
NORTEI INVERSORA	Buenos Aires (Argentina)	Pesos Arg. (,000)	78,633	1,298,000	25,000				
			89,225	1,472,841	28,368	16.58%	(48,320)	(7)	19,114
									67,434
SIEMENS INFORMATICA	Milan		6,192	49,637	(2,026)	49.00%	24,849	(5)	3,841
									(21,008)
SITEBA	Milan		2,582	13,319	3,504	30.00%	3,996		751
									(3,245)
STREAM	Rome		421,360	194,514	(322,584)	50.00%	97,257	(9)	31,916
									(65,341)
TELEMACO IMMOBILIARE	Rome		9,600	230,465	41,142	40.00%	92,186		75,798
									(16,388)
VOICE MAIL INTERNATIONAL (in liquidation)	Santa Clara (USA)	USD (,000)	49	49	-				
			55	55	-	37.07%	20		-
									(20)
Consorzio R.E.S.	Rome		310	310	-	50.00%	155		155
									-
Consorzio TELCAL	Catanzaro		878	878	-	24.00%	211		211
									-
Consorzio TELEMED (in liquidation)	Rome		103	100	(56)	33.33%	33		10
									(23)
								386,923	96,876

- (1) Data taken from the latest financial statements
(2) Includes net income (loss)
(3) Net of dividends paid
(4) Covered by reserve for losses of subsidiaries and affiliates
(5) Data taken from the latest consolidated financial statements
(6) Does not include stock included in short-term financial assets
(7) At December 31, 2001, the percentage of the ordinary share capital is 32.50%, while the percentage of total shareholders' equity, taking into account the redemption of the Class A preferred shares, is 16.58%. Consolidated data used to account for the investment by the equity method in the Telecom Italia consolidated financial statements
(8) Adjusted data showing Telsi accounted for using the equity method
(9) Data taken from the balance sheet at September 30, 2001
(10) Data taken from the financial statements at December 31, 2001, not yet approved
(11) The company was created on December 6, 2001
(12) Adjusted data showing Sogerim accounted for using the equity method

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■ ANNEX 3

COMPARISON OF BOOK VALUE OF LISTED SHARES WITH MARKET PRICES

		Market value		Carrying value		Difference	
		Unit price (in euro)	Total (thousands of euro)	Unit price (in euro)	Total (thousands of euro)	Unit price (in euro)	Total (thousands of euro)
December 31, 2001	Share	(A)		(B)		(A-B)	
Long-term equity investments							
TELECOM ITALIA MOBILE							
- ordinary shares	4,695,889,519	6.30	29,565,320	0.91	4,286,371	5.39	25,278,950
SEAT PAGINE GIALLE							
- ordinary shares	6,051,510,901	0.92	5,579,493	1.11	6,732,912	(0.19)	(1,153,419)
IMMSI	99,674,748	0.71	71,168	0.18	18,228	0.53	52,940
Short-term financial assets							
TELECOM ITALIA MOBILE							
- ordinary shares	38,192,000	6.30	240,457	6.30	240,457	-	-

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■ ANNEX 4

ACCOUNTS RECEIVABLE AND ACCRUED INCOME BY MATURITY AND TYPE

	12/31/2001 Amounts due				12/31/2000 Amounts due			
	Within one year	From two to five years	After five years	Total	Within one year	From two to five years	After five years	Total
(In thousands of euro)								
Accounts receivable in long-term investments								
Subsidiaries	-	60,000	-	60,000	-	50,000	-	50,000
Others								
· customers	709	177	-	886	747	192	-	939
· employees	8,887	24,390	16,108	49,385	7,849	30,516	10,723	49,088
· security deposits	1,347	3,792	787	5,926	592	3,777	663	5,032
· miscellaneous	49,581	54,960	-	104,541	65,926	79,196	-	145,122
	60,524	143,319	16,895	220,738	75,114	163,681	11,386	250,181
Accounts receivable in current assets								
Other loans from								
Subsidiaries	496,989	-	-	496,989	1,062,416	-	-	1,062,416
Affiliated companies	122,490	-	-	122,490	62,528	-	-	62,528
Others	547,878	-	-	547,878	898,365	-	-	898,365
	1,167,357	-	-	1,167,357	2,023,309	-	-	2,023,309
Trade receivables								
Customers	4,241,654	-	-	4,241,654	4,295,583	-	-	4,295,583
Subsidiaries	671,132	-	-	671,132	608,332	-	-	608,332
Affiliated companies	188,847	-	-	188,847	178,903	-	-	178,903
Parent companies	1,090	-	-	1,090	1,139	-	-	1,139
Other receivables due from								
- Government and other public entities for grants and subsidies	1,265	-	-	1,265	1,265	-	-	1,265
	5,103,988	-	-	5,103,988	5,085,222	-	-	5,085,222
Other receivables								
Subsidiaries	1,028,799	-	-	1,028,799	1,032,734	-	-	1,032,734
Affiliated companies	233	-	-	233	178	-	-	178
Parent companies	-	-	-	-	69	-	-	69
Miscellaneous receivables								
- deferred tax assets	414,604	94,490	-	509,094	345,627	139,579	-	485,206
- other	1,410,922	-	-	1,410,922	492,424	-	-	492,424
	2,854,558	94,490	-	2,949,048	1,871,032	139,579	-	2,010,611
Total accounts receivable	9,125,903	94,490	-	9,220,393	8,979,563	139,579	-	9,119,142
Accrued income	11,944	-	-	11,944	17,424	-	-	17,424

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■ ANNEX 5

LIABILITIES AND ACCRUED EXPENSES BY MATURITY AND TYPE

	12/31/2001 Amounts due				12/31/2000 Amounts due			
	Within one year	From two to five years	After five years	Total	Within one year	From two to five years	After five years	Total
(In thousands of euro)								
Medium/long-term debt								
Debentures	-	6,300,000	1,950,000	8,250,000	-	-	145,456	145,456
Due to banks	810,364	1,767,875	3,126	2,581,365	554,926	2,510,683	79,199	3,144,808
Due to other lenders	172,330	273,300	44,358	489,988	205,751	348,476	104,755	658,982
Taxes payable	18,241	31,921	-	50,162				
	1,000,935	8,373,096	1,997,484	11,371,515	760,677	2,859,159	329,410	3,949,246
Short-term borrowings								
Due to banks	4,727,055	-	-	4,727,055	9,625,678	-	-	9,625,678
Due to other lenders	167,789	-	-	167,789	-	-	-	-
Subsidiaries	1,218,043	-	-	1,218,043	3,997,025	-	-	3,997,025
Affiliated companies	29,205	-	-	29,205	134,553	-	-	134,553
Other liabilities	395,266	-	-	395,266	1,194,648	-	-	1,194,648
	6,537,358	-	-	6,537,358	14,951,904	-	-	14,951,904
Trade payables (1)								
Suppliers	2,240,654	-	-	2,240,654	2,832,844	-	-	2,832,844
Subsidiaries	1,090,902	-	-	1,090,902	1,101,949	-	-	1,101,949
Affiliated companies	215,446	-	-	215,446	431,175	-	-	431,175
Parent companies	11	-	-	11	1,306	-	-	1,306
	3,547,013	-	-	3,547,013	4,367,274	-	-	4,367,274
Other payables								
Subsidiaries	41,785	-	-	41,785	68,984	-	-	68,984
Affiliated companies	93	-	-	93	5,516	-	-	5,516
Taxes payable	398,336	12,054	-	410,390	494,108	-	-	494,108
Contributions to pension and social security institutions	174,051	267,822	325,539	767,412	204,747	254,381	396,601	855,729
Other liabilities	2,218,030	1,907	53	2,219,990	1,725,868	3,106	156	1,729,130
	2,832,295	281,783	325,592	3,439,670	2,499,223	257,487	396,757	3,153,467
Total liabilities (1)	13,917,601	8,654,879	2,323,076	24,895,556	22,579,078	3,116,646	726,167	26,421,891
Accrued expenses	268,178	-	-	268,178	107,255	-	-	107,255

(1) Not including advances.

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■ INDEPENDENT AUDITORS' REPORT

RECONTA ERNST & YOUNG

■ Corso Vittorio Emanuele II, 83
10128 Torino

■ Tel.: (011) 5161611
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AUDITORS' REPORT

pursuant to article 156 of Legislative Decree of February 24, 1998, n. 58
(Translation from the original Italian text)

To the Shareholders
of Telecom Italia S.p.A.

1. We have audited the financial statements of Telecom Italia S.p.A. as of and for the year ended December 31, 2001. These financial statements are the responsibility of the Telecom Italia S.p.A.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. Our audit was made in accordance with auditing standards and procedures recommended by CONSOB. In accordance with such standards and procedures we planned and performed our audit to obtain the information necessary in order to determine whether the financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness of the accounting principles applied and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

The financial statements of certain subsidiaries, which represent 40% of the account "Equity investments, long-term", and 16% of total assets, have been examined by other auditors, whose reports have been furnished to us. Our opinion, expressed herein, insofar as it relates to the data relating to these subsidiaries, is based also on the reports of the other auditors.

For the opinion on the financial statements of the prior year, which are presented for comparative purposes as required by the law, reference should be made to the auditors' report dated May 21, 2001, issued by other auditors.

3. In our opinion, the financial statements of Telecom Italia S.p.A. comply with the Italian regulations governing financial statements; accordingly, they clearly present and give a true and fair view of the financial position of Telecom Italia S.p.A. as of December 31, 2001, and the results of its operations for the year then ended.

■ Reconta Ernst & Young S.p.A.
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Capitale Sociale Lit. 2.020.000.000 i.v.
Forn. 1.043.241

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RECONTA ERNST & YOUNG

4. We draw your attention to the information presented in the explanatory notes, "Summary of significant accounting policies", regarding the accounting criteria utilized for the employee benefit obligations as required by Law no. 58/1992.

Turin, April 15, 2002

Reconta Ernst & Young S.p.A.

signed by: Felice Persico (Partner)

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■ REPORT OF THE BOARD OF DIRECTORS TO THE SHAREHOLDERS' MEETING OF TELECOM ITALIA S.P.A. PURSUANT TO LEGISLATIVE DECREE 58/1998 ART 153 AND ART. 2429, PARAGRAPH 3 OF THE ITALIAN CIVIL CODE

Dear Shareholders,

During the year ended December 31, 2001, the Board of Statutory Auditors carried out the supervisory work required by law, taking into account the code of ethics recommended by the National Boards of Dottori Commercialisti and Ragionieri. In preparing this report, the Board also took into consideration Consob Instruction No. 1025564 dated April 6, 2001, No. 97001574 dated February 20, 1997 and No. 98015375 dated February 27, 1998.

1. The obligation to keep the Board of Statutory Auditors informed pursuant to Legislative Decree 58/1998, art. 150, paragraph 1 and article 13 of the corporate by-laws, resulted in the Board receiving periodic information and data from the directors at the Board of Directors' Meetings, which have always been attended by the Board of Statutory Auditors, and written communications dated October 26, 2001 and April 16, 2002 received respectively, from the Managing Director, Mr Enrico Bondi and the Chairman Mr Marco Tronchetti Provera. This information described the most important economic, financial and equity transactions entered into by Telecom Italia S.p.A. and which are described below:

- contribution to CSELT, which was simultaneously renamed Telecom Italia Lab, of the "Venture Capital and Innovation" business segment with the relative subscription to shares. Two additional capital stock increases were later subscribed to by Telecom Italia Lab;
- direct and indirect issue, through the subsidiary Sogerim, of three notes under the Global Medium Term Note Program;
- conversion of capital stock in euro following the resolution passed by the Extraordinary Shareholders' Meeting on May 3, 2001, through the re-denomination of the par value of the ordinary and savings shares and rounding up of the par value from Lire 1,000 to Euro 0.55 through the bonus increase of share capital (carried out by increasing the par value of the shares outstanding) effected by utilizing the reserve for treasury stock which became available following the cancellation of No. 112,998,070 savings shares of treasury stock and by the transfer of about Euro 187 million from the revaluation reserve ex law No. 72 of March 19, 1983;
- start of the securitization program of trade accounts receivable generated by services rendered to customers of Telecom Italia Domestic Wireline and the customers of Path.Net, a company which provides telephone services to the Public Administration;
- contribution to TIWeb S.A. of the investment held by Telecom Italia S.p.A. in Telsi Ltd, against a share capital increase by TIWeb S.A. to service the contribution;
- authorization for the buy-back of treasury stock for a maximum amount of Euro 1,500,000,000.00 voted by the Ordinary Shareholders' Meeting of Telecom Italia S.p.A. on November 7, 2001;
- divestiture of the investments held by Telecom Italia S.p.A. in the ex-consortiums Eutelsat (20.48%), Intelsat (2.77%), Immarsat (2.09%) and New Skies Satellites (3.91%). These investments were directly and indirectly conferred to a Newco, named Mirror International Holding, whose shares, in an amount equal to 70% of the holding, were then sold to a Lehman Brothers Merchant Banking mutual fund;
- incorporation of TI Media through the total non-proportional spin-off of Huit S.A..

The above transactions were described in the 2001 directors' report on operations and in the notes to the financial statements.

The Board of Statutory Auditors has ascertained that the above transactions have been carried out in accordance with the law, the by-laws and general principles of economic rationale, ensuring that such transactions were not patently imprudent, risky, with potential conflict of interests, in contrast with the resolutions passed by the Shareholders' Meetings or such as to compromise the whole of the assets of the company.

2. The Board of Statutory Auditors has not noted any unusual and/or atypical transactions entered into with third parties, related parties or intercompanies.

The directors, in their report on operations, disclose the major related party transactions entered into by Telecom Italia Group (including Telecom Italia S.p.A.), to which reference should be made, also with respect to the characteristics of the transactions and their economic effects. In this sense, it should be pointed out that the manner of disclosure on this subject has been changed beginning from the 2001 financial statements, as described in the report on operations in "Related party transactions".

The Board of Statutory Auditors has verified, with the assistance of the Internal Auditing function, that, in Telecom Italia S.p.A., ade-

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quate procedures are in force and have been followed in order to ensure that the above transactions are conducted at arms' length or according to specific regulatory provisions.

Based on recommendations by the Board of Statutory Auditors, the Company, starting from the second half of 2001, began a thorough review of the issues connected with the obligation of disclosure pursuant to Legislative Decree 58/1998, art. 150, paragraph 1. Such review led to the drawing up of a new procedure, in March 2002, for complying with such obligations, that the Company has intention of experimenting beginning from the year 2002. The Board of Statutory Auditors, taking into account the size and structure of the Company and the Group, in principle, has expressed a positive opinion on this new procedure.

3. The disclosure provided in the report on operations and in the statutory and consolidated financial statements, concerning transactions entered into by Telecom Italia S.p.A. with related parties or intercompanies, is sufficient, taking into account the size and structure of the Company.
4. The audit firm, Reconta Ernst & Young S.p.A., on April 15, 2002, has issued its audit report in accordance with Legislative Decree No. 58/1998, art. 156 stating that the statutory financial statements and the consolidated financial statements at December 31, 2001 give a true and fair view of the financial position and results of operations of the Company and the Group. The report makes reference to the usual comments concerning the pension costs regulated by Law No. 58/1992. The same audit firm of Reconta Ernst & Young S.p.A. issued its report dated April 16, 2002, which contained no exceptions, on the sustainability report of the Telecom Italia Group for the year ended December 31, 2001.
5. The Board of Statutory Auditors received five complaints under ex art. 2408 of the Italian Civil Code in 2001, concerning corporate matters and company problems. In particular, such complaints related to the following issues: a) installation of a telephone pole by the Company on private property b) the alleged non-fulfillment of the deadline dates for filing documents for the Shareholders' Meeting c) the alleged existence of reasons for the ineligibility of a Managing Director d) the alleged illegal mechanism of overinvoicing some telephone bills e) the alleged impossibility of examining the corporate Books. The Board of Statutory Auditors, in all cases, carried out the appropriate inquiries and ascertained that there were no omissions, censurable facts or irregularities that needed to be brought to the attention of the Shareholders' Meeting.
6. The Board of Statutory Auditors received no petitions.
7. In 2001, Telecom Italia S.p.A. appointed Reconta Ernst & Young S.p.A. and PricewaterhouseCoopers S.p.A. to perform certain work other than the legal audit of the financial statements. The fees for this work, excluding out-of-pocket expenses and VAT, are summarized below:

<i>Reconta Ernst & Young S.p.A.</i>	<i>(Euro)</i>
Accounting assistance connected with the preparation of Form 20-F	376,000.00
Issue of comfort letters in relation to the issue of "Telecom Italia S.p.A. € 1,500,000,000 Floating Rate Notes due 2005"	77,500.00
Audit procedures carried out with respect to the accounting situations at September 30, 2001 of certain Telecom Italia Group companies	362,000.000
Other work (procedures agreed and accounting assistance)	42,700.00
Total	858,200.00
<i>PricewaterhouseCoopers S.p.A.</i>	<i>(Thousands of lire)</i>
Work related to the "registration form F4" – conversion offering of saving shares	495,000
Coordination work in the capital market area	50,000
Total	545,000

The above fees appear adequate in relation to the complexity and magnitude of the work performed.

8. In 2001, Telecom Italia S.p.A. did not confer any appointments to parties connected by continuous working relationships with Reconta Ernst & Young S.p.A., whereas it appointed a party connected by continuous working relationships to PricewaterhouseCoopers S.p.A. for a total of about Euro 105,000.

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9. In 2001, the Board of Statutory Auditors issued a specific opinion to the Board of Directors, pursuant to ex art. 2389, paragraph 2 of the Italian Civil Code, concerning the remuneration assigned to the Chairman and Managing Directors, as well as opinions pursuant to ex art. 2386, paragraph 1 of the Italian Civil Code with regard to the replacement of directors. It also issued opinions ex art. 159 of Legislative Decree 58/1998 with regard to the proposal for the revocation of the appointment for the audit for the three years 2000-2002, previously conferred to PricewaterhouseCoopers S.p.A., and on the proposal to appoint the firm of Reconta Ernst & Young S.p.A. for the audit of the financial statements for the three years 2001-2003, and the proposal to adjust the fees due PricewaterhouseCoopers S.p.A. in relation to the activities carried out for the audit of the financial statements for the year 2000. The Board of Statutory Auditors also issued an opinion on the conversion of the share capital in euro voted by the Extraordinary Shareholders' Meeting on May 3, 2001.
10. In 2001, the meetings of the Board of Directors numbered eighteen; those of the Audit and Corporate Governance Committee numbered six. The Board of Statutory Auditors, in 2001, met twenty-nine times. The Board also attended the ordinary and extraordinary sessions of the Shareholders' Meetings and the Board of Directors' Meetings. The Board, lastly, through its Chairman, another statutory auditor or jointly, took part, by express invitation, in the meetings of the Audit and Corporate Governance Committee held during the year.
11. The Board of Statutory Auditors has acquired information and monitored, as far as its responsibilities are concerned, the proper keeping of administration, through direct observation, the gathering of information from those in charge of the organizational functions, pursuant to Legislative Decree No. 58/1998, ex art. 151, paragraph 2, and meetings with the Internal Auditing function and meetings with the audit firm of PricewaterhouseCoopers S.p.A. up to July 2001 and Reconta Ernst & Young S.p.A. from August 2001, for purposes of a reciprocal exchange of important information and data.
12. The Board of Statutory Auditors, in the same manner, has acquired information and monitored, as far as its responsibilities are concerned, the adequacy of the organizational structure of the Company.
- In particular, the Board took note of the change in the organizational model of the Telecom Italia Group, which, as regards Telecom Italia S.p.A., is formed by a top management composed of the Chairman and two Managing Directors (instead of a President-Managing Director) and the first line is represented by the corporate functions, business units and operating activities. The functioning of the organizational structure is ensured by three macro-areas headed, respectively, by the Chairman, with the aim of creating economic value and overseeing the identity and responsibilities of the Group, and by two Managing Directors who guarantee respectively, both the governing of the Group, the rationalization and search for synergies, in addition to the management of the common service areas, and also the development, management and integration of the businesses. The definition of policy and the governing of questions transversal to the business units, the operating activities and the Companies of the Group, are guaranteed by a model based on "professional families" which, by grouping operating resources based on functional homogeneous environments found at the different organizational levels, makes it possible to bring the governance of the various business units/companies functionally to top management and the corporate structures. Governing mechanisms have also been introduced which lend support to the management and control of the business units and the operating activities on the part of top management constituted by the Steering Committee, Business Management Meetings and the Investment Committee.
- to the evolution of powers conferred for operations, the decisional structures and the internal control system – subjects on which the Board of Statutory Auditors has already expounded at the Shareholders' Meeting of Telecom Italia S.p.A. for the 2000 financial statements that was held on June 12, 2001 and in the memorandum on the "Comments by the Board of Statutory Auditors on the report for the six months ending June 30, 2001" – a new systems of powers has been designed for corporate representation on the basis of the powers conferred by the Board of Directors to the Chairman and Managing Directors in the Meeting on November 7, 2001 and in conjunction with the rules for corporate governance of the Company. This new system is based on the following principles:
- strict correlation between the organizational positions and the powers conferred, attributing power of attorney exclusively to those parties who, on the basis of their organizational mandates, carry out trading activities with third parties;
 - right to sub-delegate powers which allows a more direct definition of the powers of corporate representation and control attributed to those with powers without the need of going to top management for the assignment of the relative power of attorney;
 - introduction of precise limits in exercising the powers in relation to the commitments for expenditures, areas of expertise and joint signatures;
 - period of the power of attorney connected with the permanence of the position covered by introducing a specific clause in the act attributing the powers;
 - notation indicating the type of power of attorney correlating the use with the budget system and the corporate procedures.
- Furthermore, it should be noted that currently sub-powers of attorney are being issued by the persons in charge of the functions and business units to the various corporate structures.

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The procedures in Telecom Italia S.p.A. that are now being followed by the Group have been prepared with a view towards achieving common rules, relative to the more critical corporate processes, in terms of homogeneity and the strengthening of the internal control systems. Such procedures are aimed at defining the relationships for coordination of the various business functions and the relationships between the corporate functions and business units.

The Board of Statutory Auditors, as far as its responsibilities are concerned, has monitored the aspects of legitimacy and correct administrative procedures relating to the decisional process concerning the valuation of the corporate investment holdings.

The monitoring, in particular, regarded whether the pertinent bodies made decisions on the basis of information, appraisals and data gathered and/or processed by internal technical staff or outside consultants.

Even at the time of the aforementioned Shareholders' Meeting on the 2000 financial statements, the Board recommended that the economic value of certain foreign subsidiaries operating in the Internet sector should be monitored more closely in view of the evolutionary stage of this business that was characterized by instability and unforeseen factors on a world scale.

In the "Comments by the Board of Statutory Auditors on the report for the six months ending June 30, 2001", as well, – observations were made as to the fact that some companies in the new economy sector had not been written down because they were considered strategic or because they were in the start-up phase or, finally, because there was substantially no change in the business – the Board of Statutory Auditors itself recommended that the value of the investments should be continuously monitored.

As recommended by the Audit and Corporate Governance Committee and the Board of Statutory Auditors, the Board of Directors of Telecom Italia S.p.A., in its meeting of September 12, 2001, voted to develop a procedure for checking the value of investment holdings.

At the end of the year, the new management developed and implemented a new systematic procedure for valuing investments, establishing the pertinent bodies, the level for delegating powers and the process for approving and monitoring investments over time.

At the time of preparing the draft financial statement for 2001, the directors checked the value of the investments and adjusted them in relation to the results of the new procedures and the new strategic guidelines of the Company. The process of estimation was also supported by the results of some outside consultants regarding the valuation of Seat Pagine Gialle S.p.A. and a large part of the portfolio of Stet International Netherlands N.V. and Tim International N.V. (ex-S.M.H. N.V.).

The audit firm of Reconta Ernst & Young S.p.A., for purposes of furnishing the necessary elements for valuing the investment holdings, carried out – according to a specific appointment by Telecom Italia S.p.A. – verification procedures relating to the companies in the Telecom Italia Group, presenting the documents in December 2001 and March 2002.

Last year, a delegated law – Legislative Decree No. 231 of June 8, 2001 – introduced administrative responsibility into Italian law as regards the criminal proceedings of companies for specific offenses that eventually may be committed in the interests of and/or to the benefit of the companies themselves by those who hold positions of representation, administration, management and/or by their employees.

The Board of Statutory Auditors has regularly followed, together with the Audit and Corporate Governance Committee, all that has been proposed to date as regards this issue. To this end, the Company is outlining a development plan within the Group aimed at ensuring that the law in question will be followed

13. The Board of Statutory Auditors has evaluated and monitored the adequacy of the internal control system. In particular, it regularly gathered information on the activities carried out, by meetings with those in charge of the Internal Auditing function and by obtaining specific documentation on a periodical basis; it also requested and obtained evidence of the steps taken to correct critical areas.

After the adoption of the new organizational model in the second half of the year, the scope of the audit examination was revised as it, too, was affected by the new organizational structure. The re-examination of the internal control system recently led to the concentration of the internal audit work of Telecom Italia S.p.A. and the subsidiaries Tim S.p.A. and Seat Pagine Gialle S.p.A. in a specific company, In.Tel.Audit - Società consortile a r.l..

14. The Board of Statutory Auditors has evaluated and monitored the adequacy and the administrative and accounting system, as well as its reliability to correctly represent the operating events, by obtaining information from those in charge of the respective functions, examining corporate documentation and reviewing the results of the work carried out by the audit firm.

15. The instructions given by Telecom Italia S.p.A. to its subsidiaries, pursuant to art. 114, paragraph 2, of Legislative Decree No. 58/1998, appear adequate for purposes of fulfilling the obligation regarding communication as required by law.

16. The Board of Statutory Auditors has ascertained, through direct verification and information obtained from the audit firm, that the laws have been respected with regard to the preparation and formation of the statutory financial statements of Telecom Ita-

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lia S.p.A. and the consolidated financial statements of the Group as well as the directors' report accompanying said statements. In particular, the Group's performance by business sector and by geographical area has been presented by taking into account Consob Instruction No. 98084143 dated October 27, 1998.

The Sustainability Report of the Telecom Italia Group at December 31, 2001 is being presented, for the first time, at the Shareholders' Meeting of Telecom Italia S.p.A..

17. The Company, through its own code of conduct, follows the Code of Self-discipline of the Committee for the Corporate Governance of listed companies. To this end, the Audit and Corporate Governance Committee and the Remuneration Committee for the compensation to directors have been set up and are operational.
18. During the course of the foregoing monitoring activities, there were no significant facts that came to our attention such that would need to be reported to the controlling bodies or mentioned in this report except for a note to Consob concerning the omission of two situations that should have been communicated to the Board of Statutory Auditors in accordance with art. 150, paragraph 1, of Legislative Decree 58/1998 and which became known when the six-month financial statements at June 30, 2001 were examined. A review by the Board of the transactions connected with these situations did not result in any matters to report. The examination of the reports issued as set forth by art. 153 and art. 156 Legislative Decree 58/1998, respectively by the Board of Statutory Auditors and the audit firms of the subsidiaries of Telecom Italia S.p.A., with stocks listed on regulated markets and managed by Borsa Italiana S.p.A. or organized as business units (Tim S.p.A., Seat Pagine Gialle S.p.A., IMMSI S.p.A., Finsiel S.p.A. and Telespazio S.p.A.), show no significant matters for attention.
19. The Board of Statutory Auditors, at the Shareholders' Meeting of Telecom Italia S.p.A. on the 2000 financial statements held on June 12, 2001, discussed, as to its knowledge, the events regarding the acquisition, in June 1997, by Stet International Netherlands N.V., of a 29% stake in Telekom Srbija. The Board followed the matter also by interviewing the persons in charge of foreign operations: based on the activities carried out, currently, no significant variations have emerged in the situation described at the aforementioned Shareholders' Meeting and at the time of preparing the "Comments by the Board of Statutory Auditors on the report for the six months ending June 30, 2001".
20. The Board of Statutory Auditors, at the Shareholders' Meeting of Telecom Italia S.p.A. on the 2000 financial statements held on June 12, 2001, discussed, as to its knowledge, the events regarding the compensation package to Lorenzo Pelliccioli, who, at that time, was the Managing Director of Seat Pagine Gialle S.p.A., reserving the right to reach its conclusions after obtaining an authoritative and independent opinion on the aspects of the resolutions and disclosures on the subject. This opinion was issued on June 11, 2001 and transmitted to the Board of Statutory Auditors on June 13, 2001.
The Board of Statutory Auditors, in its "Comments by the Board of Statutory Auditors on the report for the six months ending June 30, 2001" referred to the later evolution, which can be summarized by the decision taken by the Audit and Corporate Governance Committee and by the Board of Statutory Auditors – which worked together closely on the question – to ask the aforementioned legal counsel for certain additional information, as well as to ask an authoritative and independent consultant in corporate matters certain precise information on the method and the calculation of the compensation package later paid to Mr Pelliccioli. The additional information from the legal counsel and the precise information from the consultant in corporate matters were issued, respectively, on February 6, 2002 and January 21, 2002.
The Board of Statutory Auditors submitted the matter to the Consob in its memorandum dated March 6, 2002 (sending a copy to the Chairman of the Company and the audit firm of Reconta Ernst & Young S.p.A.), whereas the Audit and Corporate Governance Committee presented its memorandum to the Board of Directors of the Company in its meeting of March 26, 2002, the same date on which the Board of Statutory Auditors sent its memorandum to the Consob.
The Board of Statutory Auditors, on the basis of the above opinions and after a careful analysis of the available documentation, reached the following conclusions:
 - Telecom Italia S.p.A. under the contracts on August 8, 1997 and March 15, 2000, assumed and then confirmed its obligation to contribute to the compensation package in favor of Mr Pelliccioli.
 - The purchase contract dated August 8, 1997 was signed by the Deputy General Manager of Telecom Italia S.p.A. who had received power of attorney on August 5, 1997 from the Managing Director by the powers vested in him by the Board of Directors on February 26, 1997.
 - From a quantitative standpoint, the benefits paid by Huit Sarl to Mr Lorenzo Pelliccioli, both with regard to the variable and fixed compensation, result from the agreements that had at one time been decided.
 - The compensation package to Mr Pelliccioli does not appear to fall within the framework of the advantages to the directors, in respect of which the project for the demerger/merger of Tin.it-Seat must make reference. The economic benefit was decided and

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developed when the project for the merger of Tin.it-Seat had not yet been either contemplated or drawn up.

- External information to the market about the compensation package does not conform to the rules of best practice as regards communication, but this does not mean that the company violated an laws.
- Information on the compensation package to the Board of Directors and Board of Statutory Auditors, by the directors with powers, was not specific and direct, with possible violation by them of their responsibilities to fully refer such information. Nevertheless, the comments made by the legal counsel should be mentioned, according to which, on the one hand, this "does not invalidate the commitments undertaken with the counterparties, and, on the other hand, could legitimize actions for damages if it could be demonstrated (of which I have no evidence at this time) that a better disclosure could have caused a change in direction and that this (which I do not believe) could have been legally possible without the agreement of the counterparties".

Lastly, the Board of Directors, having been informed – as described above – through the memorandum of the Board of Statutory Auditors to Consob on this specific issue and in light of the results of the investigation carried out by the Audit and Corporate Governance Committee, reached its own conclusions which concur with those of the two consultants, respectively as to the legal and corporate issues, excluding – at this time – that further inquiries or initiative should be started.

21. As far as the Board of Statutory Auditors is concerned, having taken note of the results of the statutory financial statements for the year ended December 31, 2001, it has no objections to the proposal by the Board of Directors for the appropriation of the net income for the year.

Rome, April 19, 2002

The Board of Statutory Auditors
The Chairman

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■ FINANCIAL STATEMENTS AT DECEMBER 31, 2001 – APPROPRIATION OF NET INCOME FOR THE YEAR AND RESERVES. PERTINENT AND RELATED RESOLUTIONS

Dear Shareholders,

The documentation available for your information gives an exhaustive illustration of the statutory financial statements of the Company and the consolidated financial statements of the Group, as well as the reasons which led to a net income of only Euro 150,809,706.79 for the year ended December 31, 2001.

The solid equity position of Telecom Italia and its future prospects nonetheless allow the Board of Directors to confirm the distribution of total dividends that substantially correspond to the those of the prior year 2000, commensurate to Euro 0.3125 per ordinary share and Euro 0.3237 per savings share.

To this end, we propose the distribution of not only over 94.9% of the net income for the year but also the reserves, for a maximum amount of Euro 2,183,907,497.39, withdrawn partly from the extraordinary reserve (which thus will be fully distributed) and – for the remaining amount – from the miscellaneous reserves. In this regard, we would like to remind you that the variability of the dividend pay-out is the consequence of the share capital increases to service the stock option plans which are liable to being partly exercised before payment so as to increase the number of ordinary shares with regular dividend rights up to a maximum of No. 5,319,962,031.

In view of the above, we submit the following proposal for your approval

The Shareholders' Meeting of Telecom Italia S.p.A.

- having examined the statutory financial statements of the Company for the year ended December 31, 2001, which show a net income of Euro 150,809,707 and an extraordinary reserve of Euro 1,369,062,099, as well as miscellaneous reserves for a total of Euro 3,792,576,214;
- having seen the Directors' Report on Operations;
- having taken note of the Report of the Board of Statutory Auditors and the Auditors' Report by the audit firm of Reconta Ernst & Young;
- having considered that the share capital increase pursuant to art. 6 of the by-laws, for the part that can be subscribed to before payment of dividends, are liable to being increased by the number of ordinary shares with regular dividends rights up to a maximum of No. 5,319,962,031;
- having considered the resolution authorizing the buy-back and successive disposition of treasury stock passed by the ordinary Shareholders' Meeting of November 7, 2001;

resolves

1. to approve the Board of Directors' Report, the balance sheet, the statement of income and the notes to the statutory financial statements of Telecom Italia S.p.A. for the year ended December 31, 2001, which show a net income of Euro 150,809,707 and an extraordinary reserve of Euro 1,369,062,099, as well as miscellaneous reserves for a total of Euro 3,792,576,214;
2. to pay to the Shareholders total dividends calculated on the basis of the following amounts, which will be applied to the number of shares in their possession (thus excluding the treasury stock of the Company in portfolio) on May 20, 2002, detaching the coupon:
 - Euro 0.3125 for each ordinary share of par value Euro 0.55 each,
 - Euro 0.3237 for each savings share of par value Euro 0.55 each, through the distribution of
 - the net income for a maximum of 94.9%, and thus up to maximum of Euro 143,176,237, in an amount of Euro 0.0163 for each ordinary share and Euro 0.0275 for each savings share;
 - the reserves for a maximum of Euro 2,183,907,497 (Euro 1,369,062,099 taken from the extraordinary reserve and a maximum of Euro 814,845,398 taken from the miscellaneous reserves), in the amount of Euro 0.2962 for each ordinary and savings share.

Be it understood that any net income not distributed in the form of dividends as a result of the failure to fully subscribe to the portion of the capital increase that can be exercised pursuant to art. 6 of the by-laws, or treasury stock held by the Company, will be transferred to retained earnings;
3. to appropriate the remaining net income for the year (equal to Euro 7,633,470, corresponding to 5.1% of total net income) to the legal reserve;
4. to authorize the Board of Directors – and on its behalf the Chairman and Managing Director Mr Buora – to ascertain in due course, in relation to the exact number of shares to be paid dividends, the exact extent:
 - of the total amount of the dividends to be effectively distributed;
 - of the net income for 2001 to be transferred to retained earnings;
 - of the total amount of the miscellaneous reserves to be effectively distributed;
5. to pay the dividends beginning May 23, 2002, detaching the coupon on May 20, 2002.

On the basis of Art. 14 of DPR No. 917 dated December 22, 1986 and subsequent amendments, the total dividends carry a tax credit 56.25% for the shareholders which can be used in full and without limitations.

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■ USEFUL INFORMATION

A free copy of this report can be obtained by:

Writing to the following address	TELECOM ITALIA S.p.A. Corporate and Legal Affairs Corso d'Italia, 41 00198 Rome
Sending a fax to	+39 - 0636882225 +39 - 0636883388
E-mail	affarisocietari@telecomitalia.it
Internet	User of the world wide web can access the "Annual report 2001" and obtain information about TELECOM ITALIA and its products and services at the following address: http://www.telecomitalia.it
Investor relations	+39 - 0636882560 / 0636882381 alberto.borgia@telecomitalia.it michele1.guerra@telecomitalia.it

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Errata

On page 91, in the right-hand column, tenth line of the paragraph entitled "Galactica dispute", the words "both were rejected" should be replaced by "one has been upheld and the other turned down".